

MANAGEMENT'S DISCUSSION AND ANALYSIS

WHAT YOU WILL FIND IN THIS REPORT

This SBA Performance and Accountability Report (PAR) is more than just a collection of individual Agency reports bound together under a common cover. For the first time, a serious effort has been made to present these various reports in a manner that offers a more integrated view of the Agency's programmatic performance, financial accountability and managerial effectiveness.

The approach taken to achieve this integration is to link the Agency's Strategic Goals and Long-Term Objectives to those items in each of these reports that describe issues relevant to their accomplishment. A critical achievement during FY2003 that made this methodology possible was the creation of a Strategic Plan with a finite number of Strategic Goals and Long-Term Objectives, cascading into specific and measurable Outcomes that define success. Links to the Strategic Plan and other SBA's planning, budgeting and reporting documents can be found in Appendix 5.

The section on Management's Discussion and Analysis (MD&A) has been organized so as to be the primary means for achieving this integration. It begins with an historical narrative marking 2003 as the 50th anniversary of SBA as a Federal Agency. This is followed by an outline of the Agency's Strategic Goals and Long-Term objectives, a table relating program funding to each of these goals and objectives, and a description of SBA's organization. Included here is an Agency organization chart indicating which Long-Term Objectives each organizational unit supports. Also included are several tables and accompanying narrative that describe SBA funding and activities, with both regional and state-by-state breakdowns, focusing on the SBA contribution to local economies through their respective district offices.

The MD&A section then summarizes the Results and Challenges of SBA and its programs over the past year. This part of the section is organized around the Agency's Strategic Goals and Long-Term Objectives. Shown under each Long-Term Objective are the key results (in terms of measurable outcomes) achieved during the year in support of the objective, and a summary of cost-related performance. This information is presented first in the form of a table, followed by a narrative discussion, and is a summary of a more extensive presentation found in the subsequent Performance Report section. Special effort was made to present the several outputs of the Agency and their cost, integrating their contribution to each one of the Long-Term Objectives, instead of focusing on the role of each one of the programs.

Following the performance summary for each Long-Term Objective are headings for the various reports found in the PAR relating to financial reporting and management issues. This includes the FY 2002 Independent Auditor's report, FY 2002 SBA Financial Statements, Inspector General reports, General Accounting Office reports, OIG-identified management challenges, and any Office of Management and Budget (OMB) Program Assessment Rating Tool evaluation that may have occurred.

Here, in an effort to present a truly integrated PAR, specific reports (and relevant sections, where appropriate) are cross-referenced if they address issues that may significantly impact the ability of SBA to achieve that objective. If there are any other major potential issues that could affect achievement of the objective, these are described under the heading of Forward-Looking Comments.

Following these objective-by-objective presentations is a program-by-program explanation of what SBA is doing to address important issues raised by OMB's PART evaluations. At the end of the MD&A section are tables and narrative relating to the financial management of SBA programs.

The Performance Report section provides a more detailed presentation on what SBA and its programs and support functions accomplished during the year in furtherance of the Agency's goals and objectives. Under each Long-Term Objective are several information tables indicating what was actually achieved during FY 2003. These results are shown in comparison to the original FY 2003 target, along with past and future targets and their cost. Where the measure is new for this year or the data is not yet available, this is indicated. Where a previous performance indicator has been or will be discontinued, this is also indicated and their historical values are reported. If the discontinued indicator constituted a performance goal in the FY 2003 Annual Performance Plan, then its value for FY 2003 is reported. Although still focused in presenting an integrated performance, the tables in this section provide a detailed view of the contribution and related cost of each one of the pertinent programs. Charts are used to show cost-related performance relating to the objective. Important aspects of program performance are described in the accompanying narratives.

The Financial Reporting section of the PAR contains several reports mandated by the statute, including various Independent Auditor's Reports, the SBA CFO's reply, and the SBA Financial Statements for FY 2003.

Additionally, all through out the PAR the human face of SBA's mission is illustrated by several success stories highlighting the programs that constitute the Agency and its national delivery system through the district offices.

Appendix 1 is a compendium of summaries of recent and significant OIG reports. This section is organized by SBA Long-term Objective, with each OIG report summary shown under the objective whose achievement the issues in the report would most likely affect. (These summaries are also cross-referenced in the MD&A section under the relevant objectives.)

Appendix 2 is a summary of recommendations from GAO reports and the SBA responses. This section is organized by SBA Long-Term Objective, with each GAO recommendation shown under the objective whose achievement the recommendation would most likely affect. (These summaries are also cross-referenced in the MD&A section under the relevant objectives.)

Appendix 3 is a compendium of SBA's most serious management challenges, as identified by the OIG, along with the status of the Agency's efforts to resolve them. Under each challenge is an identification of the SBA Long-Term Objective whose achievement is most affected. (These challenges are also cross-referenced in the MD&A section under the relevant objectives.)

Appendix 4 shows the results of recent evaluations of SBA programs by OMB in using the Program Assessment Rating Tool (PART). This section includes a copy of the entire PART questionnaire, followed by the assessment for each of the six SBA programs and indicating the reason OMB gave for any question where the program received less than full points for compliance. (These assessments are also cross-referenced in the MD&A section under the Long-Term Objective the program most affects.)

Appendix 5 is a chart summarizing the status of SBA's compliance with the initiatives on the President's Management Agenda. More information on these efforts is also contained in the Long-Term Objectives under Strategic Goal 4 of the Performance Report section.

Appendix 5 is a listing of SBA Internet links. Appendix 6 is a glossary of SBA acronyms. Appendix 7 is a summary of SBA programs and offices. Finally, Appendix 8 contains information about data validation and verification for SBA performance indicators.

The SBA FY2003 Performance and Accountability Report was prepared with the assistance of John Mercer as an independent contractor.

SUMMARY OF FISCAL YEAR 2003 PROGRAMS PERFORMANCE

U.S. Small Business Administration

The following three tables represent an analysis of the Program Annual Output Measures set and achieved for FY2003. The analysis was done by Strategic Goal and Long Term Objective (LTO). If the variance between FY2003-goal and FY 2003- actual was 10% or greater the objective was considered green and had exceeded the expectations. If the variance between FY2003-goal and FY2003 –actual was between 0% and 10% the objective was considered green and successfully met expectations. If the variance between FY2003-goal and FY2003-actual was between 0% and -10% the objective was measured at yellow and substantially met expectations. Finally if the variance was -10% or greater the objective was considered red and had not substantially met their goal. The reasons for significantly negative variance are given in the Performance Report section under the corresponding program by Long-Term Objective.

During FY 2003, the following Long Term Objectives were substantially exceeded:

LTO 1.1 – Minimize the regulatory burden on small business through effective advocacy

- Office of Advocacy - Regulatory cost savings to small businesses
- Office of Advocacy - Research publications

LTO 1.2 – Ensure equity and fairness in the Federal regulatory enforcement process.

- National Ombudsman – Percentage of Federal Agency responses
- National Ombudsman – Number of small business contacts

LTO 1.5 – Simplify the interaction between small business and the Federal government through the use of the Internet and information technology

- Business Gateway – Number of users per week

LTO 1.6 – Increase the opportunities for small businesses to receive open and fair access to Federal contracts.

- Procurement Matchmaking – Small businesses assisted

LTO 2.1 – Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

- 7(a) Program - Loans approved
- Microloans - Loans approved
- Small Business Development Centers (SBDC) - Information transfer contacts
- SBDC - Number of training hours
- Women's Business Centers (WBCs) - Number of clients served
- WBCs - Number of clients trained
- WBCs - Number of clients counseled
- WBCs - Information transfer contacts
- Business Information Centers (BIC) - Information transfer contacts
- Small Business Training Network – Number of clients participating

LTO 2.2 - Maximize the sustainability and growth of existing small business assisted by SBA.

- 504 Program - Loans approved
- International Trade - Loans approved
- Small Business Investment Center (SBIC) - Equity financing
- Surety Bond Guarantees - Bonds Guaranteed
- HUBZone - Number of firms certified at year end
- SBDC - Number of training hours
- WBCs - Number of clients served
- WBCs - Number of clients trained
- WBCs - Number of clients counseled
- WBCs information transfer contacts
- BIC - Number of clients counseled
- BIC - Information transfer contacts
- Small Business Training Network – Number of clients participating

LTO 2.3 - Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps.

- 7(j) Program – Number of small businesses participating in funded activities
- Small Disadvantage Business (SDB) - Certification applications received
- HUBZone - Number of firms certified at year end

LTO 3.1 - Restoration-Help Restore Homes and Businesses Affected by Disaster

- Office of Disaster Assistance - Applications processed in 21 days

Strategic Goal 1: Improve the economic environment for small businesses					
Program Annual Output Measures					
	Exceeds Green	Green	Yellow	Red	Total
	$\% \geq 10$	$10 > \% \geq 0$	$0 > \% > -10$	$-10 \geq \%$	
Long Term Objective 1.1	2	0	0	0	2
Long Term Objective 1.2	2	4	0	0	6
Long Term Objective 1.5	1	0	0	1	2
Long Term Objective 1.6	1	0	0	2	3
Total	6	4	0	3	13
Percentage of Total	46%	31%	0%	23%	100%

Strategic Goal 2: Increase the positive success by bridging competitive opportunity gaps facing entrepreneurs					
Program Annual Output Measures					
	Exceeds Green	Green	Yellow	Red	Total
	$\% \geq 10$	$10 > \% \geq 0$	$0 > \% > -10$	$-10 \geq \%$	
Long Term Objective 2.1	11	8	3	0	22
Long Term Objective 2.2	13	8	5	1	27
Long Term Objective 2.3	3	2	0	0	5
Total	27	18	8	2	54
Percentage of Total	50%	33%	15%	2%	100%

Strategic Goal 3: Restore Homes and Businesses Affected by Disaster					
Program Annual Output Measures					
	Exceeds Green	Green	Yellow	Red	Total
	$\% \geq 10$	$10 > \% \geq 0$	$0 > \% > -10$	$-10 \geq \%$	
Long Term Objective 3.1	1	2	0	0	3
Long Term Objective 3.2	0	0	0	0	3
Total	1	2	0	0	3
Percentage of Total	33%	67%	0%	0%	100%

The Objectives that did not substantially meet their expectations and were considered red were:

LTO 1.5

- Business Gateway – Reduced costs to businesses and regulatory agencies

LTO 1.6

- Procurement Matchmaking – Number of events held

LTO 2.2

- SBIC – Number of licenses issued

MISSION, HISTORY, GOALS AND ORGANIZATION OF THE AGENCY

SBA's History

While the year 2003 marked 50 years of SBA service to America's small businesses, beginning with the Agency's official establishment in 1953, SBA's philosophy and mission began to take shape years earlier in a number of predecessor agencies, largely in response to the pressures of the Great Depression and World War II.

The Reconstruction Finance Corporation (RFC), created by President Herbert Hoover in 1932 to alleviate the financial crisis of the Great Depression, was the SBA's grandparent. The RFC was basically a Federal lending program for all businesses hurt by the Depression, large and small. It was adopted as the personal project of Hoover's successor, President Franklin D. Roosevelt, and was staffed by some of Roosevelt's most capable and dedicated workers.

Concern for small business intensified during World War II, when large industries beefed up production to accommodate wartime defense contracts and smaller businesses were left unable to compete. To help small business participate in war production and give them financial viability, Congress created the Smaller War Plants Corporation (SWPC) in 1942. The SWPC provided direct loans to private entrepreneurs, encouraged large financial institutions to make credit available to small enterprises, and advocated small business interests to Federal procurement agencies and big businesses.

The SWPC was dissolved after the war, and its lending and contract powers were handed over to the RFC. At this time, the Office of Small Business (OSB) in the Department of Commerce also assumed some responsibilities that would later become characteristic duties of the SBA. Its services were primarily educational. Believing that a lack of information and expertise was the main cause of small business failure, the OSB produced brochures and conducted management counseling for individual entrepreneurs.

Congress created another wartime organization to handle small business concerns during the Korean War, this time called the Small Defense Plants Administration (SDPA). Its functions were similar

The mission of the SBA is to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters.

to those of the SWPC, except that ultimate lending authority was retained by the RFC. The SDPA certified small businesses to the RFC when it had determined the businesses to be competent to perform the work of government contracts.

By 1952, a move was on to abolish the RFC. To continue the important functions of the earlier agencies, President Dwight Eisenhower proposed creation of a new small business Agency -- the Small Business Administration (SBA).

In the Small Business Act of July 30, 1953, Congress created the Small Business Administration, whose function was to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." The charter also stipulated that the SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property.

By 1954, SBA was already making direct business loans and guaranteeing bank loans to small businesses, as well as making loans to victims of natural disasters, working to get government procurement contracts for small businesses and helping business owners with management and technical assistance and business training.

The Investment Company Act of 1958 established the Small Business Investment Company (SBIC) Program, under which SBA licensed, regulated and helped provide funds for privately owned and operated venture capital investment firms. The SBIC specialized in providing long-term debt and equity investments to high-risk small businesses. Its creation was the result of a Federal Reserve study that discovered, in the simplest terms, that small businesses could not get the credit they needed to keep pace with technological advancement.

In 1964, SBA began to attack poverty through the Equal Opportunity Loan (EOL) Program. The EOL Program relaxed the credit and collateral requirements for applicants living below the poverty level in an effort to encourage new businesses that had been unable to attract financial backing, but were nevertheless sound commercial initiatives.

Over the past 50 years, SBA has grown in terms of total assistance it has provided and its array of programs tailored to encourage small enterprises in all areas. SBA's programs now include financial and Federal contract procurement assistance, management assistance, and specialized outreach to women, minorities and armed forces veterans. The SBA also provides loans to victims of natural disasters and specialized advice and assistance in international trade.

Nearly 20 million small businesses have received direct or indirect help from one or another of those SBA programs since 1953, as the Agency has become the government's most cost-effective instrument for economic development. In fact, SBA's current business loan portfolio of roughly 219,000 loans worth more than \$45 billion makes it the largest single financial backer of U.S. businesses in the nation.

Over the past 10 years (FY 1993-2003), the SBA has helped almost 435,000 small businesses get more than \$94.6 billion in loans, more than in the entire history of the Agency before 1991. No other lender in this country -- perhaps no other lender in the world -- has been responsible for as much small business financing as the SBA has during that time.

Since 1958, SBA's venture capital program has put more than \$30 billion into the hands of small business owners to finance their growth. Last year alone, the SBA backed more than \$12.3 billion in loans to small businesses. More than \$1 billion was made available for disaster loans and more than \$40 billion in Federal contracts were secured by small businesses with SBA's help.

SBA continues to branch out to increase business participation by women and minorities along new avenues such as the minority small business program, microloans and the publication of Spanish language informational materials.

However, the SBA is not only about numbers. During its 50 years, the SBA has stamped its mark in many small businesses that have grown to become familiar household names. The best of the best – 23 businesses that started small but with big dreams for success – were honored as inductees into the U.S. Small Business Administration Golden Anniversary Hall of Fame September 19, 2003.

The list of inductees is a “who’s who” of some of the country’s most successful companies, many of which have become international leaders in their field, including, Intel, Hewlett Packard, Federal Express, Winnebago, Staples and a host of others.

“What most people don’t know is that all of these big businesses started out small and received help from the SBA. Their success was the result of hard work and an unwavering commitment to excellence,” said SBA Administrator Hector V. Barreto, “and the SBA is proud to have played a small part in the pursuit of their dreams.”

Following are the inductees into the SBA Golden Anniversary Hall of Fame.

Allen-Edmonds Shoe Corporation, shoe manufacturer, Port Washington, Wis., SBA 7(a) loans totaling \$2,265,000 from 1979-1989;

Alvarado Construction, Inc., commercial construction contractor, Denver, Colo., SBA loan in 1979 for \$100,000 and 8(a) program graduate;

America Online, Inc., interactive services company, Dulles, Va., five SBA-licensed SBIC venture capital financings for \$1,250,943 from 1985-1987;

Black Enterprise Magazine, monthly publication, New York, N.Y., SBA financial assistance 1969, \$175,000 loan;

Callaway Golf Company, golf clubs, golf balls and accessories manufacturer, Carlsbad, Calif., two SBA-licensed SBICs provided \$1,008,100 in venture capital from 1985-1990;

Cerner Corporation, medical information systems designer, Kansas City, Mo., \$200,000 7(a) loan in 1983 and SBA-licensed SBIC financing of \$630,000 in 1986;

El Dorado Furniture, furniture manufacturer, Opa Locka, Fla, SBA loan of \$10,000 1967;

Eskimo Joe’s, restaurant and apparel, Stillwater, Okla., \$498,000 SBA loan in 1985;

FedEx Corporation, overnight delivery company, Memphis, Tenn., five SBA- licensed SBICs provided \$3,792,000 in 1973 and 1974;

General Mills, Inc. for the Totino’s Pizza Brand, frozen pizza manufacturer and distributor, Minneapolis, Minn., \$50,000 SBA 7(a) loan for Totino’s Finer Foods in 1963;

Hewlett-Packard Company, computers and imaging devices, Palo Alto, Calif., Compaq Computer, received \$250,000 in venture capital funding (HP and Compaq merged in 2002);

Intel Corporation, semiconductor chip manufacturer, Santa Clara, Calif., SBA- licensed SBIC invested \$299,390 in 1969;

Jenny Craig, Inc., personal weight-loss management, Carlsbad, Calif., SBA-licensed SBIC invested \$9,000,000 financing in 2002;

Manufacturing Technology, Inc., military and aerospace technology, Fort Walton Beach, Fla., 8(a) program graduate and 7(a) loans for \$250,000 in 1989, \$200,000 in 1990;

Outback Steakhouse, Inc., restaurants, Tampa, Fla., SBA-licensed SBIC invested \$150,972 in 1990;

Panda Restaurant Group, Inc., restaurants, Rosemead, Calif., 7(a) loan for \$25,000 in 1973;

Radio One, Inc., radio network, Lanham, Md., SBA- licensed SBIC loans totaling \$9.5 million from six venture capital firms from 1995-1999;

Ruiz Foods, frozen Mexican food manufacturer and distributor, Dinuba, Calif., 7(a) loans in 1977 and 1979 totaling \$275,000; SCORE counseling;

Staples, Inc., office supply stores, Framingham, Mass., SBA-licensed SBIC provided \$1.5 million in 1987;

Sun Microsystems, Inc., computer network systems, Santa Clara, Calif., SBA- licensed SBIC assistance for \$30,000;

The Gymboree Corporation, child development programs and clothing, Burlingame, Calif., five SBA-licensed SBICs invested \$4,996,964 million from 1987-1990;

Winnebago Industries, Inc., recreational vehicle manufacturer, Forest City, Iowa, \$75,000 7(a) loan in 1960; SBA community development loan for \$390,000, 1965;

Yoshida Group, diversified products and business services, Portland, Ore., two \$75,000 7(a) loans in 1977 and 1980.

SBA's Goals

To fulfill its mission, the SBA has three programmatic Strategic Goals that broadly define what the Agency and its programs are trying to accomplish. A fourth Strategic Goal defines the responsibility of the Agency's executive leadership and support functions to help accomplish the programmatic goals. Each Strategic Goal is further defined by several Long-term Objectives which describe in general terms the results SBA needs to achieve in order to meet its strategic goals.

These goals and objectives are:

Strategic Goal 1. Improve the economic environment for small businesses

- **Long-term Objective 1.1. Minimize the regulatory burden on small business through effective advocacy.**
- **Long-term Objective 1.2. Ensure equity and fairness in the Federal regulatory enforcement process.**
- **Long-term Objective 1.3. Minimize the taxation burden on small business through effective advocacy.**
- **Long-term Objective 1.4. Minimize the health care cost burden on small business through effective advocacy.**
- **Long-term Objective 1.5. Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.**
- **Long-term Objective 1.6. Increase the opportunities for small businesses to receive open and fair access to Federal contracts.**

Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

- Long-term Objective 2.1. Increase the positive impact of SBA assistance upon the number and success of small business start-ups.
- Long-term Objective 2.2. Maximize the sustainability and growth of existing small businesses assisted by SBA.
- Long-term Objective 2.3. Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps.

Strategic Goal 3. Restore homes and businesses affected by disaster.

- Long-term Objective 3.1. Maximize the timely restoration of businesses and homes following disaster.
- Long-term Objective 3.2. Provide courteous and professional customer service.

Strategic Goal 4. Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services.

- Long-term Objective 4.1. SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.
- Long-term Objective 4.2. SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.
- Long-term Objective 4.3. Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.
- Long-term Objective 4.4. Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.
- Long-term Objective 4.5. Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals.

In order to achieve the intend results, all of the SBA's program and support responsibilities have aligned their activities and budget resources with one or more of the Agency's goals and objectives. (Table 1) illustrates the linkage between program and support responsibilities and Agency goals and objectives:

FY 2003 Resources Used (Amounts in Thousands)							
	SBA	CA	ED	GCBD	DO	Advocacy	National Ombudsman Disaster Assistance
Strategic Goal 1. Improve the economic environment for small businesses.							
Long Term Objective 1.1: Minimize the regulatory burden on small business through effective advocacy.	\$8,680.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8,680.00	\$0.00
Long Term Objective 1.2: Ensure equity and fairness in the Federal regulatory enforcement process.	\$1,200.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Long Term Objective 1.3: Minimize the taxation burden on small business through effective advocacy.	-----	-----	-----	-----	-----	-----	-----
Long Term Objective 1.4: Minimize the health care cost burden on small business through effective advocacy.	-----	-----	-----	-----	-----	-----	-----
Long Term Objective 1.5: Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.	-----	-----	-----	-----	-----	-----	-----
Long Term Objective 1.6: Increase the opportunities for small businesses to receive open and fair access to Federal contracts.	\$23,045.00	\$0.00	\$0.00	\$23,045.00	\$0.00	\$0.00	\$0.00
Total Goal 1	\$32,925.00	\$0.00	\$0.00	\$23,045.00	\$0.00	\$8,680.00	\$0.00

FY 2003 Resources Used (Amounts in Thousands)							
	SBA	CA	ED	GCBD	DO	Advocacy	Disaster Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.							
Long Term Objective 2.1: Increase the positive impact of SBA assistance upon the number and success of small business start-ups.	\$200,787.00	\$73,801	\$88,479.00	\$0.00	\$38,507.00	\$0.00	\$0.00
Long Term Objective 2.2: Maximize the sustainability and growth of existing small business assisted by SBA.	\$395,539.40	\$246,165.00	\$48,988.40	\$5,648.00	\$94,738.00	\$0.00	\$0.00
Long Term Objective 2.3: Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps.	\$493,624.03	\$198,079.82	\$57,612.76	\$43,744.00	\$194,189.45	-----	-----
Total Goal 2	\$1,089,950.43	\$518,045.82	\$195,079.16	\$49,392.00	\$327,434.45	\$0.00	\$0.00
Strategic Goal 3. Restore Homes and Businesses Affected by Disaster							
Long Term Objective 3.1: Restoration - Help Restore Homes and Businesses Affected by Disaster.	\$270,377.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$270,377.00
Long Term Objective 3.2 Customer Service- Provide courteous and professional customer service.	-----	-----	-----	-----	-----	-----	-----
Total Goal 3	\$270,377.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$270,377.00
Strategic Goal 4. Ensure that all SBA programs operate at maximum efficiency and effectiveness¹.							
	-----	-----	-----	-----	-----	-----	-----
TOTAL	\$1,393,252.43	\$518,044.82	\$195,079.16	\$72,437.00	\$327,434.45	\$8,680.00	\$1,200.00
							\$270,377.00

¹ The cost of this goal was allocated to the three programmatic strategic goals

THE ORGANIZATION OF SBA

SBA is an organization with a nationwide purview. SBA's Headquarters building is located in Washington, DC, while its business products and services are delivered with the help of 10 regional offices, 70 district offices and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam.

Disaster programs are delivered Nationwide and to U.S. Territories out of four area offices and to a large extent use temporary staff hired on location to respond to emergencies. The area offices report to and receive guidance from Headquarters.

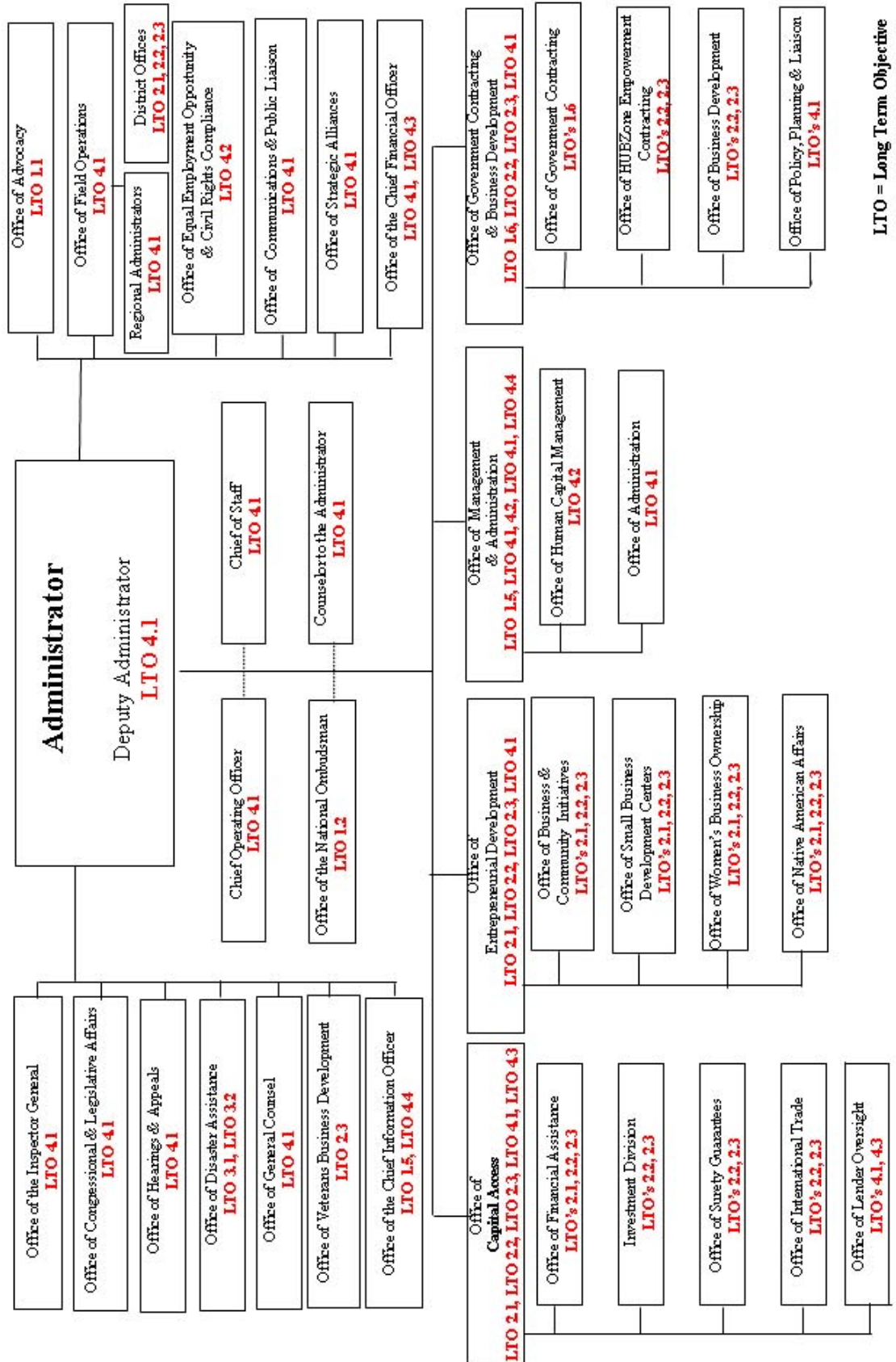
SBA Headquarters is divided into key functional areas.

- The Office of Capital Access (OCA) is responsible for small business program loans, lender oversight, the investment company program, the surety bond program and international trade.
- The Office of Government Contracting and Business Development (GC/BD) is responsible for assistance to small business in obtaining Federal procurement, Historically Underutilized Business Zone (HUBZone), and certification and eligibility. GC/BD also administers the small business innovation and research program and sets size standards for small businesses.
- The Office of Entrepreneurial Development (ED) provides provides management and business development assistance through a network of over 1,500 resource partner locations.
- The Office of Management and Administration (M&A) directs human resources, information technology, contracting and purchases, grants management and Agency administration.

The Office of Field Operations is the representative of the SBA field offices at headquarters, and among its duties is to provide policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives. Each of SBA's ten regional offices maintains oversight responsibility and ensures that the goals and objectives of the Agency are met on a consistent basis by the district offices within its boundaries.

SBA district offices are the point of delivery for most SBA programs and services. They work to accomplish the SBA mission by providing quality service to the small business community; and work with SBA resources partners, other partners and intermediaries to accomplish the SBA mission.

United States Small Business Administration

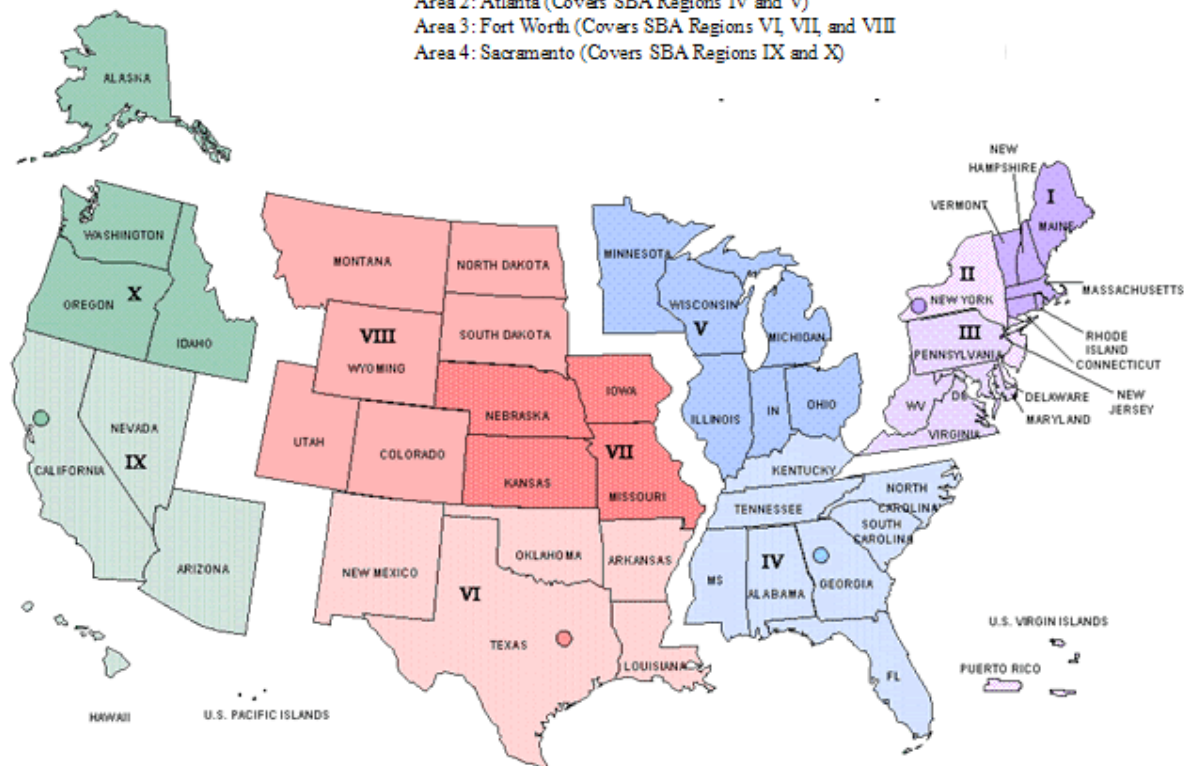


LTO = Long Term Objective

Disaster programs are delivered nationwide and to U.S. Territories out of four area offices and to a large extent use temporary staff hired on location to respond to emergencies. The area offices report to and receive guidance from headquarters. The Office of Disaster Assistance has offices located in the following areas:

DISASTER AREA OFFICE LOCATIONS

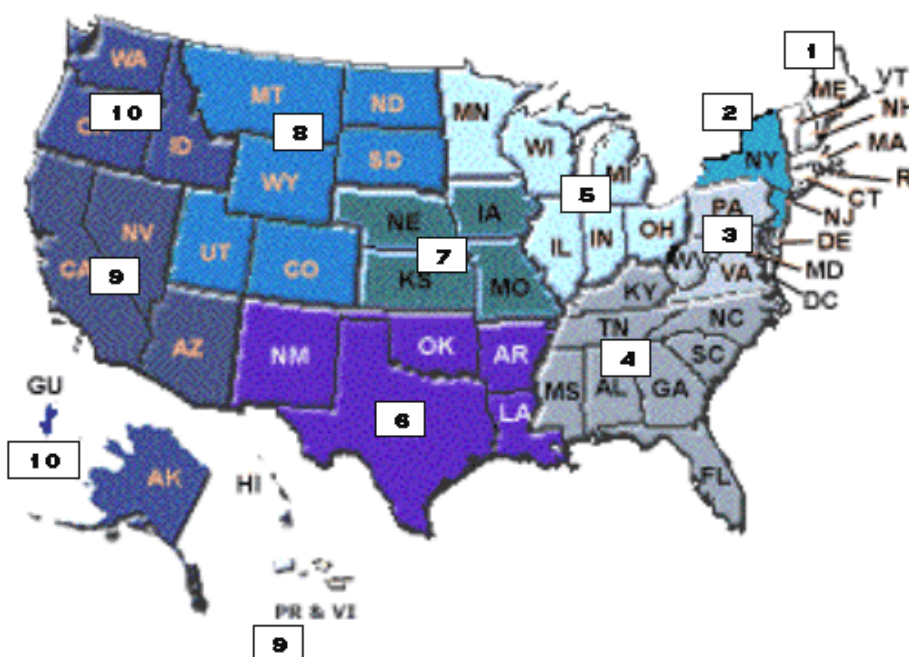
- Area 1: Niagara Falls (Covers SBA Regions I, II and III)
- Area 2: Atlanta (Covers SBA Regions IV and V)
- Area 3: Fort Worth (Covers SBA Regions VI, VII, and VIII)
- Area 4: Sacramento (Covers SBA Regions IX and X)



The Office of Field Operations is the representative of the SBA field offices at headquarters, and among its duties is to provide policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives. Each of SBA's ten regional offices maintains oversight responsibility and ensures that the goals and objectives of the Agency are met on a consistent basis by the district offices within its boundaries.

SBA district offices are the point of delivery for most SBA programs and services. They work to accomplish the SBA mission by providing quality service to the small business community; and work with SBA resources partners, other partners and intermediaries to accomplish the SBA mission.

SBA REGIONS



SBA Activity by Program Type - Regions

Region	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Region I	744	750	232	249	12,762	14,395	78,881	88,085
Region II	1,307	1,215	306	484	8,552	9,655	142,568	166,280
Region III	999	926	209	325	52,885	55,423	121,040	123,602
Region IV	2,110	1,967	277	290	30,654	35,196	229,090	244,768
Region V	1,986	2,163	291	325	15,093	17,234	171,278	190,393
Region VI	1,762	1,600	293	163	24,717	30,088	159,817	182,948
Region VII	496	546	71	24	8,670	6,412	47,529	56,009
Region VIII	858	812	122	89	7,163	7,142	69,233	84,870
Region IX	3,790	3,730	760	428	34,783	41,701	197,529	222,770
Region X	620	713	97	91	8,234	8,548	79,117	77,903
Total	14,672	14,422	2,658	2,468	203,513	225,794	1,296,082	1,437,628

¹ Data derived from Loan Accounting Tracking System.² Data derived from Loan Accounting Tracking System³ Data obtained from Federal Procurement Data System.⁴ SBA Scorecard

Region I.

In FY 2003, Region I of the SBA guaranteed 7,271 loans totaling \$750 million to New England small businesses, a 20 percent increase over last year. Region I approved 6,833 7(a) and 438 Sec.504 loans, exceeding its goal of 5,503 and 366 loans. This Region also exceeded its goal in the area of and ED counseling and training programs. SBA's activity had a direct effect on the region's economy; for example, SBA-backed loans injected more than \$83.5 million into the state of Rhode Island's economy and created or retained an estimated 2,532 jobs

Region I States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Connecticut	179	164	84	75	4,535	5,960	21,842	17,689
Maine	55	55	<1	5	600	1,133	9,890	13,051
Massachusetts	291	288	125	141	6,390	5,816	27,888	33,417
New Hampshire	101	119	18	18	557	695	7,945	10,539
Rhode Island	81	83	5	9	328	429	6,971	7,937
Vermont	37	41	<1	1	352	362	4,345	5,452
Totals	744	750	232	249	12762	14395	78881	88,085

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



LITTLE HARBOR WINDOW COMPANY, INC.

SBA believed that business was worth the risk

In 1983, while sitting around the Thanksgiving dinner table, Jim Eaton shared a prototype with his family. A few months later, Jim presented his specialty shaped window product to two of the area's largest homebuilders and started receiving orders. In 1985, he went into windows production full-time, and Little Harbor Window Company was born.

Little Harbor Window Company, Inc., a Berwick manufacturer now produces architecturally striking and beautifully styled wood-framed doors and windows, custom designed and crafted to draw light into "some of the nicest homes in the country", Eaton says. Little Harbor Window Company specializes in

custom designs of doors and windows, described by Jim Eaton as a full range of American and European products.

Jim Eaton credits two factors - employees and the Small Business Administration for his company's success. "If we did not have so many talented people working for us, we could not produce the quality products we have become so well-known for," he said. "I have nothing but high praise for our employees."

As for the **SBA**, Eaton stated that "without them, we wouldn't have made it, either." Eaton recalled. "The banks did not consider businesses like mine a good risk, so getting a conventional loan was difficult."

He also recommended that other Maine business owners contact the SBA "The Small Business Administration has been a good financial source for us. It is a great resource for any business to get involved with the SBA."

The SBA named Eaton as its "Small Business Person of the Year" in Maine for 2003. Allen Moroney of Coastal Enterprises, Inc. nominated him for the honor.

Excerpts taken from the Bangor Daily News, Maine Salute to Small Business Administration, dated April 18, 2003, pages. 8 and 9, reprinted with permission.

Region II.

Region II which includes New York, New Jersey, and Puerto Rico and the Virgin Islands, set an ambitious agenda for FY 2003. Leading the Region was the District of Puerto Rico, which includes the Virgin Islands, meeting their goals for 7(a) loans, Sec.504 loans and ED counseling and training. This performance represents a 26% increase in the millions of dollars that small businesses had access to in Puerto Rico and the Virgin Islands, thanks to SBA guaranteed loans.

The New York District Office also had a good year approving 2,516 loans through its 7(a) and 504 programs. This represents a 25 percent increase over the 2,009 loans than the office approved in FY 2002. NY District Office also contributed the Agency forward movement in its goal of reaching underserved populations by increasing loans to African Americans by 67 percent, loans to Asian Americans by 45 percent and loans to Hispanic Americans by 35 percent. Furthermore, loan approvals for women small business owners increased by 49 percent and loans to veterans increased by 35 percent.

Region II States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
New Jersey	561	488	115	109	3,529	3,592	42,558	47,020
New York	654	611	186	369	5,023	6,063	97,125	101,035
Puerto Rico	92	116	5	6	N/A	N/A ⁵	2,885	18,845
Totals	1,307	1,215	306	484	8,552	9,655	142,568	166,900

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard

⁵ The Puerto Rico District includes the District Office in Puerto Rico and branch offices located in the Virgin Island. Procurement dollars for Puerto Rico is not available at this time. A total amount for US Outlaying areas is included in the available report. That amount includes procurement dollars spent in Puerto Rico, the Virgin Islands and Guam. No break down of this amount by the territories is available.



MECHANICAL TECHNOLOGY

SBA Borrower Expands Technical College, Exceeds \$7 Million in Revenues

It is no accident that Edwin Colon-Cosme, Small Business person of the Year for the district of Puerto Rico & the US Virgin Islands, returned to his native Puerto Rico in 1989, after more than a decade of living abroad. Call it a longing to return to his roots, call it homesickness, or call it love, for, after all, it was on the Island of Enchantment that his future wife María del Carmen awaited.

Soon after Edwin and his bride settled down, he took over the administration of the Caguas Institute of Mechanical Technology (MECH-TECH), which his father had founded years before. During his years as Administrator, he utilized his experience in electronics and information technology to recommend and implement full accounting systems with cost control aimed at stabilizing short term investments to provide for future growth.

In 1995, Edwin applied for a \$1 million loan under **SBA's 504 Program** and became sole proprietor of MECH-TECH. At that time, the Institution had less than 500 students enrolled and less than \$2 million in revenues. Since then, MECH-TECH has expanded to the western coast of the Island. Student enrollment is currently at 2,200 and revenues have surpassed \$7 million. Edwin's effective leadership qualities and enthusiasm maintain comfortable and long-lasting employees. Great strategies and well-made decisions from Edwin have placed MECH-TECH in a prominent position among the educational community.

The entrepreneur has thrived on the knowledge that MECH-TECH makes great contributions to Puerto Rico's economy. As part of its mission, and as required by the Accrediting Council for Continued Education, MECH-TECH finds employment for 70% of its graduates. Under Edwin's direction, MECH-TECH has obtained long-term training relationships with industry leaders such as Pep Boys, Daimler-Chrysler, Honda, Acura, and General Motors. The Institution has continued to expand educational services to meet demands in the areas of computerization, modern Tool and Die shops, and industrial courses.

"We have to prove ourselves year after year, but there is one thing, however, that has made the journey so much easier. I look out the window and I see people who will have a job; heads of families who are making great contributions to the community," Edwin concludes.

Region III.

Region III small businesses received a record \$926 million in financing, thanks to SBA's backing of 7,332 loans under the Agency's 7(a) loan program and 282 loans under the Sec.504 program. Region III led the nation in loans to African American owned small businesses increasing its activity by 176 percent over that of FY 2002. Loans to other groups with competitive opportunity gaps also increased: Hispanic Americans by 53 percent, Asian Americans by 40 percent and Native Americans by 42 percent. A similar increase of 64 and 32 percent in loans to women and veteran small business owners was achieved. By doing so, Region III substantially exceeded its performance goals for providing counseling, training and lending to the small business community by 2 percent above last year. The Washington DC district office set the pace by achieving every goal. One District in Region III achieved more than 100% of its goal for SBA's flagship program, the 7(a) loan program.

Region III States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Delaware	31	21	10	50	108	165	7,289	6,880
Washington, DC	23	23	8	10	10,102	10,586	13,097	18,372
Pennsylvania	471	469	62	129	6,025	6,597	46,106	48,997
Maryland	200	163	69	56	10,186	12,782	25,256	23,421
Virginia	232	210	51	77	26,030	24,791	21,435	17,623
West Virginia	42	40	9	3	434	502	7,857	8,309
Totals	999	926	209	325	52,885	55,423	121,040	123,602

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



GILFORD CORPORATION

SBA's 8(A) Business Development Program Helps Small Business Growth Strong

L. Henry Gilford, chief executive officer of the Gilford Corporation located in Beltsville, Maryland, was named the 2003 Small Business Person of the Year for the Washington metropolitan area by the U.S. Small Business Administration (SBA). This award is presented annually in conjunction with the national Small Business Week observance.

From the son of a poor sharecropper to the CEO of a multi-million dollar corporation, L. Henry Gilford's life reads like a fairy tale "rags-to-riches" story. Mr. Gilford's 24 years of entrepreneurship is indicative of his determination, endurance and perseverance.

With a \$5,000 investment, he launched Gilford & Chase, Inc., a civil engineering firm, from his home. In 1995, he sold the assets of Gilford & Chase, Inc., changed the name to Gilford Corporation, modified the charter and changed the firm's focus to that of construction. Within one year of launching Gilford Corporation, the firm was completely debt free.

In 1994, Gilford Corporation received certification in **SBA's 8(a) Business Development Program**. This certification enabled Gilford Corporation to grow, develop and establish an impressive track record as a general contracting firm. Today, with the addition of a telecommunications and an environmental/demolition division, Gilford Corporation has more than 100 employees and had revenues of \$36 million in 2001. Gilford Corporation has successfully completed over 250 alteration/ renovation, new design/build projects and new construction projects in the Washington, DC area within the past six years. Mr. Gilford sums up his motto for success by saying, "our mission is and will always be client satisfaction, which leads to client loyalty."

"Each year the President issues a proclamation for the celebration of Small Business Week as a time when America salutes the achievements and economic contributions of the nation's 25 million small businesses. Gilford was chosen as one of 53 outstanding small business persons nationwide," Loddo said. Loddo pointed out that nominees were judged on seven basic criteria: staying power, growth in number of employees, increase in sales and/or unit volume, current and past financial reports, and innovativeness of product or service, response to adversity and contributions to community-oriented projects. More information about how to nominate a small business can be found at: <http://www.sba.gov/sbaforms/nominations2004.pdf>.

Region IV.

Region IV surpassed its goal for providing loans, counseling and training to the citizens of Alabama, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee. Region IV has a history of meaningful contributions to small business. As a result, five regional companies were among 23 businesses inducted into the newly created SBA Hall of Fame. Each honoree's inspiring story of small businesses growing into successful enterprises with the help of SBA is a testament to the value of our procurement, technical assistance, and capital access programs. The five companies were Federal Express – Tennessee, Manufacturing Technology – Florida, El Dorado Furniture – Florida, Outback Steakhouse – Florida during FY 2003. This region exceeded its 504 loan goal of 900 and met its goals for 7(a) loans. In total, SBA backed \$1,967 million in loans for this region.

Region IV States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Alabama	98	98	19	12	4,723	5,522	21,290	25,070
Florida	835	756	105	64	8,042	8,587	84,706	86,166
Georgia	485	442	45	97	6,962	6,874	32,799	32,018
Kentucky	89	84	9	3	1,395	2,557	18,967	19,556
Mississippi	152	132	9	3	161	2,595	9,257	8,792
North Carolina	204	190	57	47	2,546	2,273	22,205	25,727
South Carolina	117	118	13	23	2,987	2,929	12,025	16,021
Tennessee	130	147	20	41	3,838	3,859	27,841	31,418
Totals	2,110	1,967	277	290	30,654	35,196	229,090	244,768

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



GEM TECHNOLOGIES

The SBA helps to make the country more secure.

Michael Evans is the Tennessee SBA Small Business Person of the Year for 2003. His company, Gem Technologies, is headquartered in Knoxville, Tennessee and is a major nuclear remediation and security contractor to Federal agencies, including agencies concerned with Homeland Security.

His keen interest in matters of high security technology and tech management led Michael to start Gem Technologies in 1994. He has since become an expert in nuclear safety technology as it relates to Homeland

Security, bolstering his expertise in this area especially since 9-11.

GEM is regularly ranked as one of the most preferred minority-owned companies in support of the nationally renowned DOE Spallation Neutron Source Project. The security components of Gem Technologies past performance have always been considered significant by contracting agencies like the Department of Energy (DOE), but may now be considered mission-critical to our country due to the challenges in the security arena brought about by the events of September 11, 2001.

In 2001, Gem Technologies received its first contract to supply services to the largest U.S. scientific project—the Spallation Neutron Source (SNS) in Oak Ridge, TN. The SNS Project (www.sns.gov), which is a little over 60% completed, will come on line in 2006. In December 2002, Oak Ridge National Laboratories formally accepted Gem Technologies as a Protégé in the program; Evans accepted this honor in Washington, D.C. on January 21, 2003 at the offices of the Secretary of the Department of Energy.

“Gem Technologies will continue to serve the nation's needs for high quality construction, engineering and monitoring, and wherever possible to address the critical needs of today's critical Homeland Security environment—and we owe a great deal of our success to **the people at the SBA** and the **SBA 8(a) program**,” said Evans.

Region V.

Region V which includes Minnesota, Wisconsin, Michigan, Illinois, Ohio, and Indiana was consistent in achieving the performance goals in all three areas of SBA assistance to small business. The Region met the goals for 7(a) loans, Sec.504 loans and ED counseling and training for FY 2003. All Districts in Region 5 met the goals for Sec.504 loans and ED counseling and training in FY 2003 while 3 Districts either met or substantially met the goal for 7(a) loans.

Region V States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Illinois	395	454	98	156	3,345	3,829	47,248	49,503
Indiana	198	205	14	6	2,456	2,439	18,035	20,575
Michigan	354	378	24	27	2,871	3,014	30,281	38,765
Minnesota	388	425	58	67	1,740	1,833	20,641	22,613
Ohio	378	417	44	43	4,524	4,512	35,200	37,361
Wisconsin	273	284	53	26	157	1,607	19,873	21,576
Totals	1,986	2,163	291	325	15,093	17,234	171,278	190,393

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



ELECTRO-SPEC

The SBA helps to stabilize communities

With the assistance of the U.S. Small Business Administration, a recognized leader in the specialty plating industry was able to overcome a disastrous fire which destroyed their business this past March. Using both the SBA's [7\(a\) Loan Guaranty](#) and [504 Certified Development Company](#) programs, Electro-Spec reopened in a November. Additionally, 26 employees were able to return to work.

"We are grateful to the SBA for their assistance in our recovery," Electro-Spec's president, Jeffrey Smith, noted. "It gave us the chance to get the funding we needed to cover the soft costs involved in our relocation. The replacement equipment came from Vermont, Germany, and Switzerland. With the SBA, we were able to get the equipment relocated here and assembled."

Utilizing the SBA's 504 Program, Indiana Statewide Certified Development Company worked with Smith to relocate to a new facility at 3070 R J Parkway in Franklin, Indiana. The project included a waste treatment and maintenance area addition. Jean Wojtowicz, president of Indiana Statewide remarked, "When a company is in distress, more than a business is at stake. Families and communities are in peril. The Electro-Spec story is both a practical example and an inspiration. Great things can happen when a bank and two lending programs pull together with a dedicated business owner and other elements in the community."

KeyBank provided SBA 7(a) funding to finance the equipment for Electro-Spec. "Mike Veno, KeyBank Sr. VP added, "We are thrilled Key Bank could help Electro-Spec move on from such a devastating fire to its new state-of-the-art facility. It was especially gratifying to see jobs retained in Johnson County. This project was a team effort with Key's loan officers working closely with the SBA to create a flexible financing structure."

Electro-Spec's outstanding reputation was earned by its professional attention to detail and its commitment to service. Most of the components plated by Electro-Spec are used in the electronics, automotive, aerospace, military, and medical industries.

Region VI

Region VI approved 7,048 7(a) and 513 loans from the 504 program for a total of \$1,600 million during FY 2003, well above it goal of 6,798 7(a) loans and 478 loans from the 504 program. During this same time period, this region counseled and training 182,948 small business owners.

Region VI States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Arkansas	103	91	15	7	579	973	9,174	10,083
Louisiana	141	115	33	7	2,438	2,567	16,229	17,741
New Mexico	88	85	7	7	5,045	5,273	14,309	18,380
Oklahoma	135	133	15	11	1,966	2,063	10,297	13,422
Texas	1295	1176	223	131	14,689	19,212	109,808	123,379
Totals	1,762	1,600	293	163	24,717	30,088	159,817	183,005

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



UNITY ADULT CARE CENTER

The SBA helps women to become successful

Sandra had cared for her husband's grandmother for five years, but it was caring for her father-in-law, Johnny Walter Butts, Jr., that gave her the incentive to set up her business. When the VA Hospital discharged Mr. Butts in 1996, he had nowhere to go. Sandra and her husband decided to try and care for him on a trial basis. The arrangement worked, but Sandra said that "it came to me that he needed something to do during the day." She looked for an adult day care center but couldn't find one in the Mayflower area where she lives.

About that time Sandra was laid off from her job at Carrier. It was while she was retraining to learn computer skills that she found out about the Central Arkansas Entrepreneurship Training program (CAETP). The CAETP was established in March 1997 under the guidance of the non-profit Arkansas Human Development Corporation (AHDC) to help disadvantaged individuals contribute to their communities by developing the business skills to start new businesses. Sandra completed the CAETP's 83 hour course and prepared a business plan for her proposed venture. She worked with NationsBank and received a **U.S. Small Business Administration guaranteed loan**. She opened Unity Adult Care Center in January 1998.

The Center is open five days a week and care is available for Alzheimer's, wheelchair, dementia, and stroke patients. Activities include games, crafts, music, singing, and day trips. Sandra attributes her success to the Center's homelike atmosphere and its cleanliness. She is also grateful for her father's advice. "My father told me that in order to succeed at something, you cannot give up. My father told me to always do my best."

Region VII.

In FY 2003, Region VII's efforts to reach the small and rural community was fruitful and resulted in guarantying more than \$540 million in loans for the citizens of Kansas, Nebraska, Missouri and Iowa. This represents almost half of the increased lending in Region VII over last year, with our lending to rural communities up by 13 percent over our total lending on the flagship 7(a) loan guarantee program and six percent on the Sec.504 lending program. This was achieved in part by increased use of the SBA Express loan guarantee product. As a result, more than 3,000 small business owners, such as a laundry facility and grocery store have been established, able to expand services provided and benefited from the SBA. This was made possible by the hard work Region VII did to meet and/or exceeded its goals for 7(a) loans and 504 loans.

Region VII States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Iowa	101	120	12	5	737	767	13,870	12,812
Kansas	112	109	23	3	1,206	1,400	16,609	4,277
Missouri	216	228	36	16	6,393	3,766	6,393	28,686
Nebraska	67	89	0	<1	334	479	10,657	10,234
Totals	496	546	71	24	8,670	6,412	47,529	56,009

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



WHITEWING CONSTRUCTION INC

The SBA helps a business, the business helps the community

A general contractor from Newton whose work ethic has been “Give me enough crumbs and I’ll make my own cake” now enjoys his cake with double icing. Earl White, President of Whitewing Construction Inc. was named the Minority Small Business Person of the Year for the U.S. Small Business Administration’s Wichita District Office.

White founded Whitewing Construction Inc. in 1985 based on a need from a fellow contractor seeking a reliable minority company to facilitate his need to comply with Disadvantage Business Enterprise (DBE) goals that had

been set by the Federal and state governments.

Whitewing Construction, Inc. sponsors a college scholarship for a minority student graduating from Newton High School each year; helped build two Habitat for Humanity homes in Newton, and has provided assistance to the Harvey County Women’s Shelter as well as local churches.

The company started out doing only traffic control for road construction within the Kansas Department of Transportation (KDOT) Program. Over the past 18 years they have grown from that one-man operation to 25 employees operating three full-time crews to accomplish a multitude of contracts which included highway and street concrete construction, guard rails and highway fencing.

White credits the longevity and dedication of his employees along with providing a professional product as the key sources of his success. The business has grown significantly over the past years through their aggressive marketing efforts and contract assistance from **SBA’s 8(a) Business Development Program**.

Whitewing Construction became a certified 8(a) Program contractor during September 1996 where he has taken advantage of the Agency’s business development training, counseling, and introduction to the Federal government contracting arena. The Program is designed to assist disadvantaged businesses to compete in the American economy and gain access to the Federal procurement market. The business also has certification from the Kansas Department of Transportation and Oklahoma Department of Transportation.

Region VIII.

Region VIII met the goals for 7(a) loans, Sec.504 loans and ED counseling and training for FY 2003. The Region surpassed its 7(a) loan goals by making 3,217 loans and Sec.504 loan goals by making 594 loans both of which were substantially above their goals for 7(a) and Sec.594 loans which were 2,909 and 417 loans respectively. Most Districts in Region VIII met the goals for ED counseling and training which resulted in 15,673 more businesses receiving the technical assistance necessary for their success, the in FY 2002.

Region VIII States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Colorado	455	412	77	45	4,147	4,102	25,010	27,060
Montana	84	79	4	1	325	299	7,019	9,189
North Dakota	62	49	<1	<1	244	280	6,803	8,103
South Dakota	34	41	4	6	262	335	7,319	8,311
Utah	195	193	37	37	2,007	1,990	19,601	27,362
Wyoming	28	38	<1	<1	178	136	3,481	4,845
Totals	858	812	122	89	7,163	7,142	69,233	84,870

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



RESIDENT DESIGNS CLOTHING FOR THE SOUL

From hobby to business, with the assistance of the SBA

Keller Boucher had always designed her own clothes and when she couldn't find something to suit her for yoga, she simply made her own. That was two years ago and today she has her own clothing company, Ornamental Designs.

According to Boucher, designers usually show their designs to textile companies and pick out their fabric from there. This provides the whole different look and feel for labels each year. But, Boucher didn't want to purchase patterns, she wanted to create them. She also designs the fabric which she describes as "exciting". It is very unusual for a designer to be involved in every step of the process from dyeing the fabric to cutting the pattern and sewing the garment.

Keller started making her own designs two years ago and today with a loan from the **Wyoming Women's Business Center**, she runs a successful custom clothing company. Her clothing line has grown from jackets to a variety of tops, pants, and bags for yoga mats. In addition to selling in local boutiques, Keller markets and sells her unique designs at yoga conventions and art festivals throughout the West. A new web site will soon allow her customers to purchase items online.

Region IX.

Region IX which includes California, Nevada, Arizona, and Hawaii, had the best overall performance as compared to all other SBA regions in all three areas discussed here. Region IX met the goals for 7(a) loans, Sec.504 loans and ED counseling and training for FY 2003. All Districts in Region IX met the goals for 7(a) loans and Sec.504 loans for FY 2003.

During fiscal year 2003, the Nevada SBA office approved 750 loans for \$144,575,285 as compared to fiscal year 2002 with 500 loans for \$125, 149,537 and fiscal year 2001 with 369 loans for \$119,127,895. In addition to setting new state-wide records in all loan production categories, loans to African-Americans (42), Hispanic-Americans (57), Asian-Americans (86), veterans (98) and women (174) set new records, as well. Among the 131,037 Nevada businesses in 2003, the SBA partnership network provided counseling and training to 11,584 existing or prospective business owners, funded 750 businesses and assisted in the formation or retention of 4380 jobs. Also, according to tracking information available to SBA procurement specialists in Nevada, Federal contracting opportunities for small businesses at those civilian and military installations being monitored totaled \$134,695,037 for the first nine months of fiscal year 2003.

Region IX States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Arizona	443	466	58	16	5,045	6,972	26,970	35,090
California	3187	3076	700	411	27,361	32,031	147,463	156,260
Hawaii	35	45	<1	<1	1,420	1,5435	13,641	19,536
Nevada	125	143	2	1	957	1,155	9,455	11,584
Totals	3,790	3,730	760	428	34,783	41,701	197,529	222,470

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard

⁵ The Hawaii District includes the Islands of Hawaii and the branch office in Guam. The procurement dollars included for Hawaii does not include the procurement dollars spent in the island of Guam. That amount is included in the amount titled US Outlying areas which includes Puerto Rico, the Virgin Islands and Guam. No breakdown of this amount by the territories is available.



ARANDA TOOLING, INC

Small Businesses help tilt the trade balance

Pedro Aranda, President of Aranda Tooling, Inc. of Huntington Beach, CA was named Regional Exporter of the Year 2003 by the U. S. Small Business Administration (SBA). The region includes California, Hawaii, Arizona, Nevada and Guam.

Aranda was nominated by the U.S. Department of Commerce's U.S. Commercial Service division for his dedication, hard work and perseverance resulting in export successes to foreign markets. His selection was announced by District Director Sandy Sutton who said, "**International trade** is very important to our nation's

economy and Aranda Tooling is an excellent example of the positive impact of exporting on the success of a business."

Aranda tooling is a value-added manufacturer of metal stamped parts and assemblies. They make components for different industries, the automotive sector being the largest market. For example the company supplies everything from heat shield for Honeywell's turbocharger plant in Mexico to components for door locks to Black & Decker and brackets for Price Pfister faucets.. Aranda Tooling currently employs 130 at its 70,000 square foot facility in Huntington Beach.

Aranda is a native of Spain who moved to California in 1972. He started his business in 1975 as a one-person machine shop, incorporating three years later. Aranda has obtained two SBA loans in the company's development to assist him in the company's expansion.

Aranda was honored by the U.S. Commercial Service in 2002 with an Export Achievement Certificate.

Region X.

Through the efforts of SBA \$713.5 million were pumped into the American northwest and Alaska economy during fiscal year 2003. This reflects a 15 percent increase over last year. Perhaps more important than loans is the fact that over 21,872 jobs were created and saved as a direct result of these loans. Furthermore, regional loan records for African Americans, Hispanics, Asians, Native American, Women and Vets show loan dollars totaling \$372.8 million. Additionally, 77,903 prospective and/or established small business owners received counseling and training from SBA and its resource partners throughout the region during this fiscal year. This was achieved as a result of Region X meeting its goals for 7(a) loans, Sec.504 loans and ED counseling and training for FY 2003. In total, Region X approved 3,108 7(a) loans and 344 Sec.504 loans compared to their goal of 2,546 7(a) loans and 267 Sec.504 loans.

Region X States	Approved 7(a) and 504 loans (millions of dollars) ¹		SBIC financings (millions of dollars) ²		Federal Procurement contracts (millions of dollars) ³		Clients counseled/ trained in SBDC, SCORE, WBC, BIC ⁴	
	FY 2002	FY 2003	FY 2002	FY 2003	FY 2001	FY 2002	FY 2002	FY 2003
Alaska	16	24	0	<1	1,079	1,322	9,104	5,068
Idaho	94	99	<1	<1	1,148	1,269	8,213	9,782
Oregon	184	189	14	21	810	828	32,830	30,509
Washington	326	401	83	70	5,197	5,129	28,970	32,544
Totals	620	713	97	91	8,234	8,548	79,117	77,903

¹ Data derived from Loan Accounting Tracking System.

² Data derived from Loan Accounting Tracking System

³ Data obtained from Federal Procurement Data System.

⁴ SBA Scorecard



NORTH WIND ENVIRONMENTAL, INC

HUBZone Small Business Helps the Environment by Excelling

In 1997, Sylvia Medina decided to form her own company, North Wind Environmental, Inc., where her strong business ethics and hard work would be appreciated and used to better her future. When Sylvia formed North Wind she wanted it to be the kind of company she had always wanted to work for, one that appreciates and respects its employees, and encourages its employees to better themselves and be the best they can be. Ms. Medina believes if you hire the right people, treat them with respect and

appreciate their efforts, that these employees will remain loyal to you and your business. Ms. Medina has attracted the best and the brightest to work for North Wind, and her philosophy on how she treats her employees has paid off, employee turnover at North Wind is negligible.

Under Silvia's leadership, North Wind has developed into a company with strong and diverse technical capabilities. North Wind specializes in environmental planning, documentation, and compliance; waste management services; hazardous materials management; remedial design and remedial action, and geosciences support. North Wind has grown at a rapid rate over the past several years, yet has been able to maintain the excellent quality of its professional services. North Wind currently employs 102 full time and 83 part time. In addition to its Idaho Falls corporate office there are satellite offices located in Boulder, CO; Yuma, AZ; Las Cruces, NM; Salmon, ID; Greybull, WY; Richland, WA; Edison, NJ; Anchorage, AK; Missoula, MT; and San Diego, CA.

Over the past four years, Silvia and North Wind have received several honors and awards, including the 2001 SBA Region X Subcontractor of the year; 2001 Boise District Minority Small Business Person of the Year; CH2M Hill FY 2000 Subcontractor of the year; BBWI, FY 2000 Award of Excellence **Small HUBZone Supplier of the Year**; Bechtel BWXT Idaho, LLC (BBWI), and the BBWF 1999 Small Business Subcontractor of the Year. These awards and nominations were based on North Wind's ability to provide timely, quality services, at a reasonable rate, in a safe manner.

Performance Indicators by Region						
District Office	7(a) loans		504 Loans		ED Counseling & Training	
	Goal	Actual	Goal	Actual	Goal	Actual
Region I						
Connecticut	1,165	1,190	52	73	18308	17,689
Maine	438	407	27	39	10472	13,051
Massachusetts	1,996	2,610	137	141	30682	33,417
New Hampshire	822	1,287	117	151	7783	10,539
Rhode Island	869	1,065	21	26	8200	7,937
Vermont	213	274	12	8	4762	5,452
Total	5,503	6,833	366	438	80,207	88,085
Region II						
Buffalo	713	600	31	36	21,515	18,845
New Jersey	2,370	2,232	83	58	45,435	47,020
New York	2,610	2,351	205	165	51,502	55,603
Puerto Rico	770	878	35	45	17,990	18,845
Syracuse	852	666	64	66	22,212	26,587
Total	7,315	6,727	418	370	158,654	166,900
Region III						
Baltimore	639	670	52	40	19,624	23,421
Delaware	151	187	12	5	7,917	6,880
Philadelphia	1,671	2,341	84	53	30,455	27,880
Pittsburgh	1,127	2,319	42	17	20,471	21,117
Richmond	727	558	94	73	20,276	17,623
Washington	625	1,052	87	88	14,230	18,372
West Virginia	245	205	17	6	9,599	8,309
Total	5,185	7,332	388	282	122,572	123,602
Region IV						
Alabama	530	218	100	90	22,062	25,070
Georgia	1,453	1,491	127	137	35,939	32,018
Kentucky	594	412	51	34	20,469	19,556
Mississippi	548	488	35	29	9,777	8,792
North Carolina	1,042	860	133	108	22,579	25,727
North Florida	963	1,101	88	109	22,410	28,597
South Carolina	513	486	57	72	13,120	16,021
South Florida	2,028	2,823	229	344	58,835	57,569
Tennessee	725	511	80	80	28,624	31,418
Total	8,396	8,390	900	1,003	233,815	244,768

Performance Indicators by Region						
District Office	7(a) loans		504 Loans		ED Counseling & Training	
	Goal	Actual	Goal	Actual	Goal	Actual
Region V						
Cleveland	991	906	79	81	17,467	15,497
Columbus	978	907	121	135	19,423	21,864
Illinois	1,794	1,606	253	295	47,417	49,503
Indiana	937	910	134	137	19,956	20,575
Michigan	1,394	1,590	123	127	31,920	38,765
Minnesota	1,420	1,514	189	234	22,173	22,613
Wisconsin	1,154	1,286	129	131	20,867	21,576
Total	8668	8719	1028	1140	179223	190,393
Region VI						
Arkansas	462	353	30	27	9,933	10,083
Dallas	1,880	2,354	102	105	37,950	36,707
El Paso	153	256	9	9	12,441	11,192
Houston	1,288	1,298	81	84	35,759	42,293
Louisiana	690	423	51	52	17,490	17,741
Lower Rio Grande	218	206	22	23	6,825	6,408
Lubbock	369	337	30	24	9,072	9,038
New Mexico	349	432	42	68	15,524	18,380
Oklahoma	687	639	51	52	11,312	13,422
San Antonio	702	750	60	69	15,407	17,741
Total	6,798	7,048	478	513	171,713	183,005
Region VII						
Cedar Rapids	223	204	35	24	8,582	6,195
Des Moines	371	349	54	52	7,455	6,617
Kansas City	886	966	99	109	17,439	17,969
Nebraska	393	442	32	54	10,657	10,234
St. Louis	504	593	58	65	7,142	10,717
Wichita	275	238	22	16	5,188	4,277
Total	2,652	2,792	300	320	56,463	56,009
Region VIII						
Casper	164	161	16	24	3,726	4,845
Denver	1,207	1,234	150	239	27,061	27,060
Fargo	268	214	39	47	7,092	8,103
Helena	374	478	13	17	7,420	9,189
Salt Lake City	674	946	179	228	20,622	27,362
Sioux Falls	222	184	20	39	7,746	8,311
Total	2,909	3,217	417	594	73,667	84,870

Performance Indicators by Region						
District Office	7(a) loans		504 Loans		ED Counseling & Training	
	Goal	Actual	Goal	Actual	Goal	Actual
Region IX						
Arizona	1,109	1,505	131	166	28,608	35,090
Fresno	842	888	126	159	12,463	11,817
Hawaii	259	292	27	34	13,941	19,536
Los Angeles	2,767	4,285	211	252	31,081	32,328
Nevada	429	624	80	126	10,128	11,584
Sacramento	732	802	199	237	12,099	10,794
San Diego	810	853	135	169	20,795	21,658
San Francisco	1,615	2,055	261	322	40,434	58,789
Santa Ana	1,427	1,836	263	394	22,150	20,874
Total	9,990	13,140	1,433	1,859	191,699	222,470
Region X						
Alaska	112	79	14	19	4,711	5,068
Boise	307	348	65	101	8,629	9,782
Portland	808	903	80	101	32,671	30,509
Seattle	986	1,346	75	89	21,626	25,372
Spokane	333	432	33	34	9,122	7,172
Total	2,546	3,108	267	344	76,759	77,903

RESULTS AND CHALLENGES

In support of its Strategic Goals and Long-Term Objectives, SBA has developed specific Outcome Measures that define long-term success, and annual performance targets and other indicators to track progress (see the Performance Report). Its program and support organizations have also developed both long-term and annual strategies for achieving these results (see the Strategic Plan and the Performance Budget).

The discussion below is an overview of the key results achieved by SBA during FY 2003 in support of each of the Long-Term Objectives, along with information on SBA's performance and accountability for its activities as they relate to each of these Objectives. Also included is cost-related information, cross-references to related financial reporting on the program and any significant management issues that need to be resolved, and any forward-looking statements describing possible future trends that may impact performance.

In order to ensure that this Performance and Accountability Report is a truly *integrated* presentation of information from various documents, this Management Discussion and Analysis is organized around each of the SBA Strategic Goals and Long-Term Objectives. Summary information on performance and results, financial reporting and management concerns is included wherever it relates to the programs and activities under a particular Objective, with cross-references to other sections of this PAR being noted where more detailed information on the item may be found.

STRATEGIC GOAL ONE

Improve the economic environment for small businesses

This strategic goal is intended to benefit those small businesses that deal directly with SBA and its established network of rescue partners. In FY 2003, the SBA empowered individual entrepreneurs to take advantage of the opportunities the market offers by providing knowledge, skills and technical assistance, access to loans and equity, and procurement opportunities either directly or through its partners. While SBA programs benefited all entrepreneurs seeking its assistance, the Agency placed particular emphasis on groups that own and control little productive capital because they have limited opportunities for small business ownership.

Long-term Objective 1.1

Minimize the regulatory burden on small business through effective advocacy

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
1.1.1 Achieve a yearly regulatory cost savings that increases at a rate of 10 percent annually over a base amount of \$3.8 billion set in 2002, due to Advocacy intervention, by FY 2008.								
	\$3.6B	\$4.4B	\$21.1B ¹	\$4.0B	\$6.3B	\$4.6B ²	\$5.1B	\$24.5B
1.1.2 Ensure 66 Federal agencies have in-house expertise on how to comply with the Regulatory Flexibility Act (RFA) as amended by the Small Business Regulatory Enforcement Fairness Act of 1996, by FY 2008. ³								
	N/A ⁴	N/A	N/A	N/A	N/A	25	25	66
1.1.3 Achieve a total of 50 states that have formally considered legislative or executive action to increase regulatory flexibility for small businesses, by FY 2008.								
	N/A	N/A	N/A	N/A	N/A	10	10	50
1.1.4 Insert Advocacy data and reports into the curricula at 80 of the top 100 universities with major entrepreneurship programs, by FY 2008.								
	N/A	N/A	N/A	N/A	N/A	16	16	80
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Research Publications	25	17	18	20	30	20	20	100
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total Regulatory Burden Assistance Cost (\$000)	7,126	7,175	7,780	9,709	8,680	11,239	TBD ⁵	TBD

¹ \$21.1B is an anomaly. Advocacy saved businesses an unprecedented \$21.1B in potential cost regulations. The bulk of the cost savings were due to the revisions made to the Cross Media Electronic & Record keeping by the Environmental Protection Agency, which resulted in an estimate savings of \$18B. Although a valid cost savings, it's sheer magnitude made it an aberration, and therefore it should not be used in any performance or target calculations.

² The \$4.5B figure that was originally published in the Budget Request and Performance Plan Report, Congressional Submission Fiscal Year 2004, was an estimate. The new figure, \$4.6B is based on the median of savings achieved in FY 1999, 2000, 2001 and 2002, plus or minus two standard deviations to eliminate outliers.

³ E.O. 13272. "Proper Consideration of Small Entities in Agency Rulemaking", requires agencies to establish policies and procedures for complying with Regulatory Flexibility Act, and requires the Office of Advocacy to issue periodic guidance on how to comply and provide Agency training

⁴ N/A = Not Applicable

⁵ TBD = To Be Determined

Summary of Program Performance

SBA was able to exceed its FY 2003 goals of saving small businesses in foregone regulatory costs and producing economic research publications. By persuading government agencies to adequately consider small business concerns during rulemaking processes and documenting the importance of small business in economic studies, through the Office of Advocacy, SBA was able to save the small businesses \$6.3 billion, which is substantially above its goal of \$4 billion.

Toward the end of FY 2003, SBA also developed three additional outcomes for measuring the success of our Advocacy efforts by FY 2008: ensure 66 Federal agencies have in-house expertise on how to comply with the Regulatory Flexibility Act (RFA) as amended the Small Business Regulatory Enforcement Fairness Act of 1996; achieve a total of 50 states that have formally considered legislative or executive action to increase regulatory flexibility for small businesses; and insert Advocacy data and reports into the curricula at 80 of the top 100 universities with major entrepreneurship programs.

Executive Order 13272, "Proper Consideration of Small Entities in Agency Rulemaking," which requires agencies to consider potential impacts on small business entities when promulgating regulations in compliance with the Regulatory Flexibility Act (RFA), also aided in the Office of Advocacy's ability to exceed its goals. In response to this executive order, Advocacy was able to issue an RFA compliance guide for Federal agencies; award a contract to Gillespie Associates to develop an RFA training curriculum based on Advocacy's RFA guide; pilot test the training with the assistance of three Federal agencies and begin the rollout of the training government-wide; and issue a report to the Office of Management and Budget on Agency compliance with the executive order.

In its effort to improve awareness of small business issues in the legislative and regulatory process and among the research community and as a result of small business research it conducted, Advocacy was able to surpass the goal of its data being cited 20 times within small business community interests. In fact, Advocacy's data was cited 30 times at meetings, conferences, during research presentations and at regional focus groups conducted during FY 2003.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: *No significant related issues.*

Management Issues

Inspector General Reports: *No significant related issues.*

General Accounting Office Reports: *No significant related issues.*

OIG-Identified Management Challenges: *No significant related issues.*

OMB PART Evaluation: *This program has not been evaluated by OMB.*

Forward-Looking Comments

Success for Advocacy depends upon increasing interaction and responsiveness by Federal agencies to Advocacy requests for fair consideration of small entities during the regulatory rulemaking process pursuant to E.O. 13272 and the RFA. In addition, good rulemaking procedures tend to suffer during times of national emergency, when many regulations are promulgated on an expedited basis. For this reason, the Office of Advocacy's ability to influence regulations could be adversely impacted if there were circumstances of national emergency.

There is a distinct possibility that future years' savings will trend downward if Federal regulatory agencies internalize processes that result in rules with less impact from the outset. The early involvement of Advocacy and improved Agency understanding of the RFA also supported SBA's Long-Term Objective 1.1. These interventions can reduce regulatory burdens without necessarily producing cost savings. As agencies internalize responsibility for giving proper consideration to small entity impacts under E.O. 13272 and the RFA, their proposals should be more sensitive to small business and less burdensome. While this would mean that Outcome Measure 1.1.1 is not met, it would be a positive development in that case, as it would mean that significant success in achieving the intent of Outcome Measure 1.1.2 has reduced the opportunity to meet the target for 1.1.1.

Long Term Objective 1.2

Ensure equity and fairness in the Federal regulatory enforcement process

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
1.2.1 Achieve a 10 percent decrease in the annual number of Federal regulatory enforcement actions taken against small businesses.								
	N/A ¹	N/A	N/A	N/A ²	N/A	N/A	-5%	-10%
1.2.2 Achieve a 5 percent increase in the number of enforcement actions in which the civil penalty is reduced or waived, by FY 2008.								
	N/A	N/A	N/A	N/A	N/A	N/A	5%	10%
1.2.3 Achieve an annual customer satisfaction rating of 85 percent for complaint filers by FY 2008.								
	N/A	N/A	N/A	N/A	N/A	70%	75%	85%
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Receiving Assistance with Regulatory Enforcement Process	N/A	N/A	250,000	500,000	2,200,000	850,000	900,000	5,450,000
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total Assistance with Regulatory Enforcement Process Cost (\$000)	1,427	935	2,945	2,627	1,200	2,993	TBD ³	TBD

¹ N/A = Not Applicable.

² OMB has requested that this goal be moved off during the summer of FY03 because there will be no preliminary data until the second quarter of FY04. Because this is a new requirement, many agencies are delayed in reporting, and this will make it difficult to establish a baseline.

³ TBD = To Be Determined

Summary of Program Performance

During FY 2003, the SBA, through its Office of the National Ombudsman (ONO), was able to exceed its goal toward ensuring equity and fairness in the Federal regulatory enforcement process. SBA was able to substantially increase its small business contacts to an annual level of 2,000,000 vs. a goal of 300,000. ONO was also able to increase the level at which Federal agencies respond to questions and requests for assistance from small businesses from 58% in FY 2002 to 79% in FY 2003, representing a 21% increase over its goal of 55%, all while sustaining a 70% customer satisfaction rate.

The Ombudsman Website, which was visited a record of 2.1 million times during FY 2003 –almost double the number last year was instrumental in SBA's ability to increase its level of contact with small businesses. This was also achieved through the ONO's efforts to train 20 new volunteer Regulatory Fairness Board Members enabling board members to participate in 82 outreach activities. Collectively, this group made presentations to local trade groups and organizations representing approximately 250,000 small business owners to inform them of the services offered by the Office of the National Ombudsman. The ONO also leveraged its resources and partners to reach organizations and trade groups representing over 7.8 million small businesses by gathering and sharing ideas and information through focus groups, media, and live training.

SBA substantially increased the level at which Federal agencies responded to small business concerns. This was achieved by implementing a system that rates Federal agencies' level of responsiveness, reporting results to Congress and proving a yearly public update through the media. SBA was also able to process more than 400 small business comments representing the concerns of over 1.2 million entrepreneurs. ONO provided the forum in which approximately 150 small business owners gave public testimony regarding unfair Federal enforcement of regulations. The ONO chaired 22 public hearings in 20 states and 10 regions—two of the hearings were bilingual, in English and Spanish. This office led the first interactive Regulatory Enforcement Fairness hearing using video-conference to simultaneously reach four states and 12 sites. ONO hosted its first region-wide, telephone-conference, Web-based Regulatory Enforcement Fairness hearing to encourage participation from rural and remote locations in six states. Fourteen regional public meetings were held to introduce women, minority and veteran small business owners to the services of the Office of the National Ombudsman.

SBA, through ONO joined with OMB/OIRA to begin establishing baselines and begin measurement of Federal regulatory enforcement activities mandated by the Small Business Paperwork Relief Act of 2002. The ONO held two inter-Agency meetings—increasing collaboration among more than 30 Federal agencies to make the regulatory enforcement environment more small business friendly.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: *No significant related issues.*

Management Issues

Inspector General Reports: *No significant related issues.*

General Accounting Office Reports: *No significant related issues.*

OIG-Identified Management Challenges: *No significant related issues.*

OMB PART Evaluation: *This program has not been evaluated by OMB.*

Long-term Objective 1.3

Minimize the taxation burden on small business through effective advocacy.

This is a new long-term objective identified in our strategic plan which was developed at the end of FY 2003. Key results, cost related performance, summary of program performance, financial reporting and management issues are not available.

Forward-Looking Comments

Because this Outcome Measure is derived in part from the President's Agenda for America's Small Business, there is the possibility that its achievement could be adversely affected by either a change in small business policy by the White House or by a change in Administration.

Long-term Objective 1.4

Minimize the health care cost burden on small business through effective advocacy.

This is a new long-term objective identified in our strategic plan which was developed at the end of FY 2003. Key results, cost related performance, summary of program performance, financial reporting and management issues are not available.

Forward-Looking Comments

Because this Outcome Measure is derived in part from the President's Agenda for America's Small Business, there is the possibility that its achievement could be adversely affected by either a change in small business policy by the White House or by a change in Administration.

Long-term Objective 1.5

Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
1.5.1 By FY 2008, achieve a savings for businesses of at least \$56 million through the creation, operation, and maintenance of the Business Gateway, a "one-stop" interagency, intergovernmental Web portal for all government-to-business transactions.								
	N/A ¹	N/A ²	N/A	N/A	Not Avail.	\$15M	\$30M	\$146M
1.5.2 By FY 2008, achieve a savings of \$16 billion from reducing the unnecessary paperwork burden on small business, from an FY 2002 baseline of \$160 billion in annual costs. ³								
	N/A	N/A	\$160B ⁴	Not Avail.	Not Avail.	\$1B	\$5B	\$32B
1.5.3 By FY 2008, achieve a savings of \$358 million through the deployment of electronic tools to facilitate compliance with government laws and regulations.								
	N/A	N/A	\$20M	\$275M	\$21M	\$50M	\$150M	\$829M
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Time Saved	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Number participants	N/A	N/A	170,000	200,000	250,000	N/A	N/A	N/A
Reduced costs	N/A	N/A	\$20M	\$275M	\$21M	\$50M	\$150M	\$829M
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total cost to achieve savings (\$000)	N/A	N/A	Not Avail.	Not Avail.	Not Avail.	Not Avail.	TBD	TBD

¹ Information to determine cost savings will be obtained through a customer satisfaction survey that will not be conducted until after application is up and running after October 2004.

² N/A = Not Applicable

³ Information used to determine measure is collected at fiscal year end and will therefore always be one year behind.

⁴ Outcome measure data gathered in FY03 based on FY02 information for FY04 implementation of outcome measure.

Summary of Program Performance

The Business Compliance One Stop, one of the President's 25 E-Government Initiatives was modified by the Office of Management and Budget mid year to include a Forms Portal and re-named the Business Gateway Initiative. Although still improving the economic environment for small businesses, it employs a new strategy to simplify the interactions between small businesses and the Federal Government. As a result, outcome measures 1.5.1 and 1.5.2 are reflective of the new undertaking. Outcome measure 1.5.3 while initially developed for the Business Compliance One Stop, is still relevant for Business Gateway.

SBA identified three strategies for simplifying the interactions between small businesses and the Federal Government for FY 2003. Outcome measure 1.5.3 was based on the strategy to provide quick access to appropriate laws and regulations as they are relevant to the area of interest of the small business user. In addition to refocusing this effort, SBA not only met every deliverable that was mandated by OMB related to the \$740,000 provided to SBA from the E-Government fund, but implemented several deliverables not included in the plan (i.e., Miner module, startup advisor, SBPRA task force report). To achieve this goal, SBA enhanced the utility of Businesslaw.gov, a user-friendly website by which business can access information and online tools pertaining to regulations and compliance assistance information. The number of users for businesslaw.gov continues to grow and the estimated savings are tremendous.

The other two strategies for achieving Long Term Objective 1.5 were successfully implemented in FY 2003, but due to the redirection of the project will not be continued. They will be discussed further in the Performance Report section.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: *No significant related issues.*

Management Issues

Inspector General Reports: *No significant related issues.*

General Accounting Office Reports: *No significant related issues.*

OIG-Identified Management Challenges: *No significant related issues.*

OMB PART Evaluation: *This program has not been evaluated by OMB.*

Long-term Objective 1.6

Increase the opportunities for small businesses to receive open and fair access to Federal contracts.

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
1.6.1 Each year, Federal agencies meet the government-wide goal of awarding 23 percent of government contracts to small businesses.	22.3%	22.8%	22.6%	23.0%	Not Avail.	23.0%	23.0%	23.0%
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Receiving Procurement Assistance	N/A ¹	N/A	400	4,800	25,971	26,000	28,000	153,313
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total Procurement Assistance Cost (\$000)	22,707	26,305	24,513	32,326	23,045	28,123	TBD	TBD

¹ N/A = Not Applicable

Summary of Program Performance

SBA plays a key role in ensuring full and open competition to government contracts for small businesses. The Federal government annually buys over \$400 billion in goods and services, and has a statutory goal of awarding at least 23 percent of its purchases to small businesses. As a part of this effort, SBA assists agencies by negotiating Agency-specific procurement goals, monitoring performance and encouraging the use of small business sources.

The SBA has revised program reporting structure for the Offices of Government Contracting and Planning, Policy and Liaison. Previously, the Agency reported a myriad of “programs” for these two offices, that were, in reality, “activities,” including: Prime Contracting; Certificates of Competency; Contract Bundling Reviews; Natural Resource Sales, Non-manufacturing Rule; Preference Goaling; Prime Contracting; Procurement Marketing and Access Network (PRO-Net); Small Business Innovation Research (SBIR); Small Business Technology Transfer (STTR); Federal and State Technology (FAST); Rural Outreach; Veterans Contracting; Women Business Owners Contracting; and Size Standards. To simplify its reporting structure, SBA is aggregating these activities into two programs: Prime Contracting Assistance, and Subcontracting Assistance. However, there are some activities that are Headquarters “overhead” functions such as “Size Standards” that are allocated to activities and programs under this revised program reporting structure. Additionally, in the past, Size Standards was identified as a program, when in reality it is a support function for both procurement and financial assistance, and for other Federal programs. As a support function, its costs have been allocated to overhead. It should be clearly understood that this change in reporting structure will affect neither SBA’s execution of these activities, nor its organizational structure. These changes are intended solely to array activities in more meaningful cost and performance terms so that more relevant measures can be established.

The SBA will begin reporting the dollar value of contracts awarded and jobs supported by its Prime and Subcontracting Assistance Programs. It will also begin reporting the number of mid-year Agency reviews of Agency goal compliance that it conducts, and the number of small businesses it counsels and trains in government contracting. Further, during FY 2004, SBA will continue to seek new measures that will better reflect the impact and effectiveness of these programs.

Related Financial Reporting

Independent Auditor’s Report/SBA Financial Statements for FY 2002: *No significant related issues.*

Management Issues

Inspector General Reports: No significant related issues.

General Accounting Office Reports: GAO has issued a report where recommendations remain open that relate to improving contracting opportunities for women-owned small businesses, which supports this Objective. SBA is taking appropriate action.

- GAO-01-346, *Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses* (see PAR, Appendix 2)

OIG-Identified Management Challenges: *No significant related issues.*

OMB PART Evaluation: *This program has not been evaluated by OMB.*

STRATEGIC GOAL TWO

Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

This strategic goal is intended to benefit those small businesses that deal directly with SBA and its established network of resource partners. In FY 2003, the SBA empowered individual entrepreneurs to take advantage of the opportunities the market offers by providing knowledge, skills and technical assistance, access to loans and equity, and procurement opportunities either directly or through its partners. While SBA programs benefited all entrepreneurs seeking its assistance, the Agency placed particular emphasis on groups that own and control little productive capital because they have limited opportunities for small business ownership.

Long-term Objective 2.1

Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
2.1.1 Number of prospective and start-up small businesses assisted.	843,593	886,848	980,290	993,009	1,067,064	1,087,739	976,238	4,836,669
2.1.2 Percentage of prospective and start-ups from among those small businesses assisted.	TBD ¹	TBD	TBD	TBD	TBD	TBD	TBD	TBD
2.1.3 Percentage of successful start-ups lasting at least one year that were assisted.	N/A ²	N/A	N/A	N/A	Not Avail.	TBD	TBD	TBD
2.1.4 Median customer satisfaction rating.	N/A	N/A	N/A	N/A	Not Avail.	TBD	TBD	TBD
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Receiving Financial Assistance	17,763	16,425	16,960	15,681	19,756	22,394	23,165	124,125
Receiving Technical Assistance	826,694	871,457	964,370	978,159	1,048,426	1,066,270	953,073	4,712,544
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total Receiving Financial Assistance Cost (\$000)	\$86,182	\$82,640	\$77,931	\$51,677	\$73,801	\$55,441	TBD	TBD
Total Receiving Technical Assistance Cost (\$000)	\$88,145	\$99,031	\$96,830	\$95,363	\$88,479	\$95,778	TBD	TBD

¹ TBD = To Be Determined

² N/A = Not Applicable

Summary of Program Performance

The SBA was able to exceed its FY 2003 goal for increasing the number of financed start-ups by expanding eligibility for the revamped SBA Express program to 2400 additional banks. Also, during the year the SBA reinterpreted its policy and started allowing non-geographic based credit unions into the lending programs. The percentage of dollars invested in start-ups increased from almost 32% to approximately 36%. The SBA also contributed to the success of start Small Business Investment Companies (SBICs) also made add-on financings to companies that were start-ups when they were originally financed. When combined, both initial and follow-on rounds of investments to start-ups by SBICs represented 50% of the entire SBIC portfolio.

With little or no increase in funding, the SBA through the Office of Entrepreneurial Development programs expanded outreach almost 9% for the second year in a row, serving a record high of over 1 million prospective and start-ups in this category, 7% over target for FY 2003. This does not include the almost 90,021 users who logged onto SBA's online training network with its 60 course offerings. With a second year of level funding at \$5 million, the SCORE program continued to increase its activities with a 20% increase in new email counseling cases and a 25 % increase in email follow-up over FY 2002 figures. Workshop attendance increased by 10 % over FY 2002 and counseling hours increased 22%. All told, in FY 2003 this counseling training program reached 393,677 clients, exceeding its target goal by 3%.

Additionally, with over 80% of its clients in the nascent and early start-up market sector, the WBC program provided counseling and training to 85,290 clients, exceeding its goal by 20%.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: The report for FY 2002 described financial aspects of programs involved in supporting this Objective:

- *Independent Auditor's Report on Internal Control, Funds Control Weaknesses (FY 2002 PAR, page 127) and Master Reserve Fund (FY 2002 PAR, page 128)*
- *Notes to Financial Statements, Note 1. Significant Accounting Policies: C. Budget and Budgetary Accounting for Loan Program, H. Interest Receivable-Master Reserve Fund, O. Liability for Loan Guarantees (FY 2002 PAR, pages 147-151)*
- *Notes to Financial Statements, Note 4. Master Reserve Fund (FY 2002 PAR, page 156)*
- *Notes to Financial Statement, Note 6.R. Credit Program Subsidy: Guarantee Programs: 7a, 504, SBIC (FY 2002 PAR, pages 167-170)*

Management Issues

Inspector General Reports: The following OIG reports cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

- OIG Inspection Report 3-26. *The Microloan Program: Moving Toward Performance Management (see PAR Appendix 2)*
- OIG Audit Report 3-33. *Audit of SBIC Oversight (see Appendix 1)*
- OIG Inspection Report 3-43. *Insufficient Proof of Citizenship for SBA Loans (see Appendix 1)*

General Accounting Office Reports: *No significant related issues.*

- *OIG Identified Management Challenges:*

- *Challenge 5. SBA needs better controls over the business loan purchasing process (see PAR, Appendix 3)*
- *Challenge 6. SBA needs to continue improving lender oversight (see PAR, Appendix 3)*
- *Challenge 9. Preventing loan fraud requires additional measures, including new regulations and funding (see PAR, Appendix 3)*

OMB PART Evaluation: OMB has conducted PART evaluation of an SBA program that supports accomplishment of this Objective. This program received the weighted score and effectiveness rating shown below:

- *Small Business Investment Company (SBIC): 64% -- Adequate (see Appendix 4)*

Agency Response to Management Challenges:

Challenge 5. SBA needs better controls over the business loan purchase process.

The Office of Field Operations is assisting field offices with purchase backlogs, has developed a purchase tracking system, and is assisting Capital Access to centralize purchases in a National liquidation/purchase center. The guaranty purchase review project periodically examines field office purchase decisions and provides feedback on purchase decisions and processes.

A guaranty purchase Notice provided extensive guidance on purchase policy and procedures, a new guaranty purchase document checklist accompanied the Notice. The instructions in the notice plus additional guidance will be incorporated in the SOP. A guaranty repair tracking system is in place with reports available on-line. The Offices of Financial Assistance and Field Operations have established a protocol for contacting field offices on individual purchase decisions examined in guaranty purchase reviews within appropriate time periods.

OGC conducted intensive purchase training for all field counsel, and OFA trained purchase pilot staff. Purchase training materials will be placed on-line in the near future for access by all staff processing purchases in the national guaranty purchase center.

Challenge 6. SBA needs to continue improving lender oversight.

An Office of Lender Oversight (OLO) was established to provide oversight. Information and training for 7(a) and 504 participants under the new risk based review process is being undertaken through industry conferences, SBA district and regional lender meetings. Under risk based reviews, 7(a) and 504 lenders receiving marginal ratings are requested to submit action plans to address deficiencies. OLO also participates in training of District Offices for Workforce Transformation. LMS executed a contract to provide SBA with small business credit scores on approximately 90% of the portfolio. These scores provide an objective, commonly understood measure of credit quality and, thus, financial risk in SBA's guaranteed loan portfolio.

Formal communication with regard to the 7(a) and 504 programs has been established. A Portfolio Analysis Committee has been established to review the monthly portfolio analysis report and discuss trends, expected causes and related issues. Supervision of problem lenders has been effective

through ad hoc meetings with members of OCA, OFA and OLO participating to develop an effective supervisory strategy given the specific circumstances involved.

The Investment Division recently implemented the Risk Assessment Profile (RAP) system to measure risk in its portfolio.

Challenge 9. Preventing loan fraud requires additional measures, including new regulations and funding.

The Agency has unsuccessfully sought legislative changes to be able to address this challenge.

Forward-Looking Comments

One of the programs contributing to this long-term objective is the Program for Investors and Micro-Entrepreneurs (PRIME) program. This is a technical assistance program. It authorizes SBA to provide grants to non-profit entities that either provide business based technical assistance to disadvantaged, low-income, and very-low income individuals; provide capacity-building services to those organizations, or funds research and development about and for those organizations. It targets low-income individuals who want to explore self-employment as an option. SBA has requested zero funding for FY2005 for PRIME because it is duplicative, has no demonstrated history of performance, and has not demonstrated cost effectiveness.

- There are **no lending goals** associated with the PRIME program.
- There are **no standardized performance goals** associated with the PRIME program.
- PRIME has **no stated goal for economic development** other than to train the targeted market, develop “better” training for the targeted market, and develop training tools to reach the target market.
- PRIME has **no expectations of outcome** regarding the program as a whole.
- There is **no collective data** to illustrate that PRIME has or has not been successful
- On an individual basis, the number of grantees has diminished from an original group of almost 90 grantees, to a current group of fewer than 60. This is because **over a two-year period, approximately 1/3 of the grantees could not meet self-stated performance goals.**

SBA can provide technical assistance to the PRIME market through its existing Entrepreneurial Development infrastructure. This infrastructure includes program such as the Small Business Development Centers, Service Corps of Retired Executives, and the Women's Business Centers, and the Office of Veteran's Business Development

Long-term Objective 2.2

Maximize the sustainability and growth of existing small businesses assisted by SBA.

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
2.2.1 Number of existing small businesses receiving SBA assistance.	361,296	380,675	423,282	433,560	468,251	502,512	515,784	2,972,112
2.2.2 Firms assisted by SBA, existing for 1-2 years and exceeding the national average survivability rate for the same time period.	N/A ¹	N/A	N/A	N/A	Not Avail.	TBD ²	TBD	TBD
2.2.3 Small firms, assisted by SBA, exceeding the national average job creation rate.	N/A	N/A	N/A	N/A	Not Avail.	TBD	TBD	TBD
2.2.4 Small firms, assisted by SBA, exceeding the national average revenue growth rate.	N/A	N/A	N/A	N/A	Not Avail.	TBD	TBD	TBD
2.2.5 Customer satisfaction rate of at least 90%.	93.0%	75.0%	85.3%	85.0%	80.0%	85.4%	86.9%	90.0%
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Receiving Financial Assistance	44,603	44,936	54,470	65,319	71,027	92,706	109,650	543,075
Receiving Technical Assistance	316,093	333,014	363,582	361,660	389,471	399,881	392,634	2,367,460
Procurement Assistance	1,843	3,986	6,772	8,000	9,077	11,500	13,500	61,577
SBA Annual Cost								
SBA Outcomes Cost ³	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total Financial Assistance Cost (\$000)	\$196,677	\$202,101	\$229,477	\$198,139	\$246,165	\$216,792	TBD	TBD
Total Technical Assistance Cost (\$000)	\$52,184	\$55,794	\$46,293	\$47,347	\$48,988	\$45,081	TBD	TBD
Total Procurement Assistance Cost (\$000)	\$6,042	\$5,804	\$6,539	\$3,543	\$5,648	\$7,550	TBD	TBD

¹ N/A = Not Applicable

² TBD = To Be Determined

³ Cost Figures are from FY 04 Congressional Budget Submission

Summary of Program Performance

In FY 2003, the number of 7(a) loans approved to existing small businesses increased by 35% over the previous year. The goal for the number of 504 loan approvals to established businesses was met. Program activity steadily increased in the Surety Bond Guarantee Program during FY 2003, with the number of bonds guaranteed exceeding the goal of 8,000.

By certifying more than 2,200 small business as 'qualified HUBZone small business concerns' during FY 2003, SBA increased the HUBZone portfolio to more than 9,000 firms, making it the largest single Federal certification program. The range of goods and services offered by HUBZone concerns spans the full spectrum of the North American Classification System, capable of meeting nearly all the needs of contracting officers throughout the nation.

The SBA attained this high rate of certification by enhancing the capabilities of its technologically advanced application system, which allows prospective clients to access the electronic forms and participation information via the Internet. The Agency continued to automate its business processes. To ensure a high level of HUBZone Program integrity, SBA expanded its automated system to include a program examination component. This enhancement enabled the Agency to capture updated information from firms certified under the HUBZone Program via the Internet, electronically document examination, and analysis of corroborative information, and process continuing eligibility determinations over the Intranet.

The SBA issued a requirement to increase the availability of Federal contract opportunities for HUBZone certified firms. This requirement provides for development of a system to identify Federal opportunities appropriate for set-aside under the HUBZone Program, identify potential HUBZone sources, and automatically advise acquisition agencies. Through this initiative, the Agency will be able to assist Federal agencies in achieving their goals for award of contracts to HUBZone firms.

In FY 2003, the Small Business Development Centers (SBDC) program successfully expanded the program's operation from a core of 58 Lead Centers to 63 Lead Centers. All told, the program achieved a counseling record of 268,139 existing small businesses counseled, exceeding its targeted goal by 8%. This program also exceeded its training goal by 8%, for a total of 146,754 existing small businesses trained.

In FY 2003, the SCORE program counseled and trained approximately 500,000 clients, exceeding its target goal of 462,257. In delivering these services, SCORE concentrated heavily on electronic initiatives, both for service delivery and evaluation purposes. The result was that for its FY 2003 counseling and training programs, SCORE earned an 83% customer satisfaction rating, delivered online, in the "Very Good to Excellent" range, with 93% of clients indicating they would refer prospective business owners to SCORE. SCORE also launched a suite of web sites, improving volunteer resource facilitation and enhancing presence and effectiveness online.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: *No significant related issues.*

Management Issues

Inspector General Reports: The following OIG reports cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

- OIG Audit Report 3-10. *Audit of 504 Loan Program Oversight* (see Appendix 1)
- OIG Audit Report 3-22. *Office of Veterans Business Development's Monitoring of Cooperative Agreement* (see Appendix 1)
- OIG Audit Report 3-23. *Audit of Selected Aspects of the Service Corps of Retired Executives (SCORE) Program* (see Appendix 1)

General Accounting Office Reports: GAO has issued a report where recommendations remain open that relate to improving SBA's oversight of lenders who make small business loans in support of this Objective. SBA is taking appropriate action.

- GAO-03-90, *Progress Made but Improvements Needed in Lender Oversight* (see Appendix 2)

OIG-Identified Management Challenges:

- *Challenge 5. SBA needs better controls over the business loan purchasing process* (see Appendix 3)
- *Challenge 6. SBA needs to continue improving lender oversight* (see Appendix 3)
- *Challenge 9. Preventing loan fraud requires additional measures, including new regulations and funding* (see Appendix 3)

OMB PART Evaluation: OMB has conducted PART evaluations of several SBA programs that support accomplishment of this Objective. These programs received the weighted scores and effectiveness ratings shown below:

- Small Business Development Centers (SBDCs): 73% -- Moderately Effective (see Appendix 4)
- 504 Loan Program: 70% -- Adequate (see Appendix 4)
- Business Information Centers (BICs): 42% -- Results Not Demonstrated (see Appendix 4)
- Service Corps of Retired Executives (SCORE): 71% -- Moderately Effective (see Appendix 4)

Agency Response to Management Challenges:

Challenge 5. SBA needs better controls over the business loan purchase process.

The Office of Field Operations is assisting field offices with purchase backlogs, has developed a purchase tracking system, and is assisting Capital Access to centralize purchases in a National

liquidation/purchase center. The guaranty purchase review project periodically examines field office purchase decisions and provides feedback on purchase decisions and processes.

A guaranty purchase Notice provided extensive guidance on purchase policy and procedures, a new guaranty purchase document checklist accompanied the Notice. The instructions in the notice plus additional guidance will be incorporated in the SOP. A guaranty repair tracking system is in place with reports available on-line. The Offices of Financial Assistance and Field Operations have established a protocol for contacting field offices on individual purchase decisions examined in guaranty purchase reviews within appropriate time periods.

OGC conducted intensive purchase training for all field counsel, and OFA trained purchase pilot staff. Purchase training materials will be placed on-line in the near future for access by all staff processing purchases in the national guaranty purchase center.

Challenge 6. SBA needs to continue improving lender oversight.

An Office of Lender Oversight (OLO) was established to provide oversight. Information and training for 7(a) and 504 participants under the new risk based review process is being undertaken through industry conferences, SBA district and regional lender meetings. Under risk based reviews, 7(a) and 504 lenders receiving marginal ratings are requested to submit action plans to address deficiencies. OLO also participates in training of District Offices for Workforce Transformation. LMS executed a contract to provide SBA with small business credit scores on approximately 90% of the portfolio. These scores provide an objective, commonly understood measure of credit quality and, thus, financial risk in SBA's guaranteed loan portfolio.

Formal communication with regard to the 7(a) and 504 programs has been established. A Portfolio Analysis Committee has been established to review the monthly portfolio analysis report and discuss trends, expected causes and related issues. Supervision of problem lenders has been effective through ad hoc meetings with members of OCA, OFA and OLO participating to develop an effective supervisory strategy given the specific circumstances involved.

The Investment Division recently implemented the Risk Assessment Profile (RAP) system to measure risk in its portfolio.

Challenge 9. Preventing loan fraud requires additional measures, including new regulations and funding.

The Agency has unsuccessfully sought legislative changes to be able to address this challenge.

Long-term Objective 2.3

Significantly Increase successful small business ownership within segments of society facing competitive opportunity gaps.

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
2.3.1 By 2008, increase the number of prospective and existing small businesses facing special competitive opportunity gaps (COGs).	680,417	728,031	769,283	N/A	840,759	843,230	1,030,066	2,181,307
2.3.2 By FY 2008, for small businesses facing special competitive opportunity gaps, exceeding the national survivability rate for comparable small businesses within the first 2 years of existence.	N/A	N/A	N/A	N/A	TBD ¹	TBD	TBD	TBD
2.3.3 By 2008, for small businesses facing special competitive opportunity gaps, exceeding the national average rate of comparable small business job creation with 2 years of assistance.	N/A	N/A	N/A	N/A	TBD	TBD	TBD	TBD
2.3.4 By 2008, for small businesses facing special competitive opportunity gaps, exceeding the national average rate of comparable small business revenue growth within 2 years of assistance.	N/A	N/A	N/A	N/A	TBD	TBD	TBD	TBD
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Receiving Financial Assistance	N/A	1,833	2,105	N/A	52,269	54,617	54,829	338,786
Receiving Technical Assistance	671,497	713,306	742,696	N/A	758,580	762,847	950,187	1,713,034
Receiving Procurement Assistance	8,920	12,892	24,482	19,132	29,910	25,766	25,050	129,487
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Total Financial Assistance Cost (\$000)	N/A	N/A	\$5,152	\$1,786	\$198,079	\$131,829	TBD	TBD
Total Technical Assistance Cost (\$000)	\$66,259	\$72,237	\$68,328	N/A	\$57,612	\$62,293	TBD	TBD
Total Procurement Assistance Cost (\$000)	\$39,878	\$55,437	\$55,617	\$52,847	\$43,744	\$60,302	TBD	TBD

¹ TBD = To Be Determined

Summary Program Performance

OCA increased 7(a) and 504 loans to underserved markets with a 79% increase to African Americans, a 42% increase to Hispanics, a 37% increase to Women, and a 96% increase to rural areas.

This year, SBA initiated modernization of the 8(a) Business Development Program by streamlining its key processes, and adopting an electronic application. This program will enhance efficiency and effectiveness, and ease requirements on small businesses. With the system, the Agency will be able to process a greater number of applications more rapidly and more reliably, with less staffing.

In a parallel effort, the Agency initiated actions to automate and centralize business processes of the 8(a) Business Development Program now performed by district office staff. Specifically, the office began to automate the annual review process for program participants. Firms certified for participation in the program will be able to upload current-year analytical information to the Agency via the Internet. Decision support built into the system will enable the analysts in a central processing center to rapidly and efficiently review submissions, and make recommendations for continued participation or graduation from the program. This initiative will improve the efficiency, reliability, and timeliness of the annual review process, and release district office staff to perform more client-centered work.

In FY 2003, the Agency developed a CD-ROM-based Procurement Academy to provide distance training to 8(a) Program Participants, other small firms owned and controlled by economically and socially disadvantaged individuals, and small firms located in areas of high unemployment or low income. The Academy addresses business opportunities that exist with the Federal government, strategies for selecting specific products or services to market to the Federal government; managing contracts once they are awarded; and building solid performance records. This training will better prepare firms to enter and succeed long-term in the Federal contracting arena. It will also help them develop the institutional skills that will enable them to transit from the sole-source and limited-competition environment of the 8(a) Program to the fully competitive marketplace.

Although ED programs serve all market sectors, they are increasingly focused on programs to assist such groups as women, minorities and Native Americans. For example, 28 percent of SCORE clients were women and 24 percent were minorities. In the SBDC program, 41 percent of its clients were women and 34 percent were minorities. While the WBC program primarily serves women clients, about 23% of those served are minorities. Long-term goals have been set which will increase the minority percentage to the 40% mark by FY 2008.

In FY 2003, through over 80 centers nationwide, the Women's Business Center Program (WBCs) provided counseling and training to 106,612 clients, exceeding its goal of 88,540. This program also opened eleven new centers and funded an additional five sustainability centers. The program exceeded the three percent goal in growth for the Women's Network for Entrepreneurial Training (WNET), which grew from 180 roundtables to more than 200 nationwide; at a cost of only \$10,000 (expenses have remained level).

Despite the collapse of the venture capital market and the adverse climate for raising capital in late 2001 and 2002, six of the seven funds raised their equity capital funds and matching Operational Assistance resources by mid-2003. The NMVC program is therefore made available a total of \$149 million including \$62.4 million of non-Federal funding oriented to low income areas in some fifteen states. Through Federal FY2003, the funds have made a total of \$2.1 million in investments and disbursed some \$1.3 million in Operational Assistance to smaller businesses in these low income areas. This dollar amount reflects a total of 6 investments made by all NMVCCs, of which 2 were made in minority and/or women-owned businesses equivalent to \$450,000.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: No significant related issues

Management Issues

Inspector General Reports: The following OIG report cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

- OIG Audit Report 2-33. 7(j) Management and Technical Assistance Program (see PAR, Appendix 1)

General Accounting Office Reports: GAO has issued several reports where recommendations remain open that relate to SBA helping 8(a) firms and to improving Federal contracting with WOSBs. SBA is taking appropriate action.

- GAO-00-196, SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts (see PAR, Appendix 2)
- GAO-01-346, Federal Procurement: Trends and Challenges in contracting with Women-Owned Small Businesses (see PAR, Appendix 2)
- GAO-00-197, SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission (see PAR, Appendix 2)

OIG-Identified Management Challenges:

- *Challenge 7.* The Section 8(a) Business Development program needs to be modified so that (i) more participating companies receive access to business development, and (ii) standards for determining economic disadvantage are clear and objective, so that more eligible companies receive 8(a) contracts (see PAR, Appendix 3)
- *Challenge 8.* SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms (see PAR, Appendix 3)

OMB PART Evaluation: Any issue related to the long-term objective can be found in long-term objectives 2.1 and 2.2.

Agency Response to Management Challenges:

Challenge 7. The 8(a) Business Development ("8(a) BD") program needs to be modified so that more participating companies receive access to business development resources. Additionally, the 8(a) BD program needs to establish a clearer and more objective standard for determining economic disadvantage. These changes should help firms more readily assess whether they qualify for the 8(a) BD program, and help more program participants receive 8(a) BD contracts.

The Office of Business Development has prepared a draft SOP containing procedures increasing the emphasis on business development. These procedures include: (1) increased site visits with procurement officers; and (2) participation in matchmaking events. Additionally, policy revisions are in process that will enhance existing criteria for assessing business success. These enhanced criteria

will be promulgated to field activities, and firms will be graduated once they meet these predetermined criteria for success.

The Office has begun the process of supplementing the services offered under the 8(a) BD program so that additional, practical information and guidance on how to succeed will be available to program participants. Specifically, these services will focus on assisting transitional firms to ensure their success after graduation from the 8(a) BD program. SBA has also been working with Federal agencies to help them ensure a more equitable distribution of 8(a) contracts. Towards this end, SBA has met with several Federal agencies, and the result of each meeting has been a new commitment by the agencies to seek out new 8(a) firms for contracting opportunities.

Challenge 8. SBA needs to clarify the rules intended to deter 8(a) BD participants from passing through procurement activities to non-8(a) BD firms.

This problem is commonly referred to as the “Value Added Reseller” (“VAR”) issue. Last year, SBA issues a proposed rule to address the Inspector General’s concerns regarding VAR issues. Additionally, the Office of Size Standards prepared an interim final Notice addressing the problem. The Size Standards regulation is expected to be published shortly.

Forward-Looking Comments

The Microloan program has been one of the tools used by SBA to achieve this long-term objective. As a result of the 12 year history of the Microloan program, 7(a) lenders are beginning to see the value in making smaller loans. The Program has proven that micro-level borrowers are credit worthy, good risks, and that they create jobs at the “street” level. Because of the success of the Federally funded microloan program, the private sector is self-correcting to eliminate the financing gap that existed in the early 1990s. SBA believes that by eliminating funding for the Microloan Program, the same loans can be made with a considerable reduction in cost to the government.

- Last year, the 7(a) program provided 23,335 loans of \$35,000 or less for a total amount of \$424.5 million. The average loan amount in this group was \$18,189.
Of these loans, 2111 were made under the Community Express Program, using \$16.4 million of the total, and providing privately funded technical assistance. The average loan amount for this group was approximately \$7,788
- Last year the Microloan program (7(m)) provided 2443 loans of \$35,000 or less for a total amount of \$30.408 million, and provided Federally funded technical assistance.
- The average loan amount for this group was approximately \$12,446

Not including the cost of administration,

- The cost to lend 23,335 micro-level 7(a) loans was approximately \$4.4 million (or \$189 per micro-level 7(a) loan).
- The cost to lend 2443 7(m) microloans was approximately \$3.9 million (or \$1,596 per microloan).
- The 7(a) lending programs utilize technical assistance funded directly by the Community Express lenders providing the micro-level loans. This technical assistance is provided at no cost to the Federal Government.
- The 7(m) program requires a separate line item for funding technical assistance and training to microborrowers. The cost to the Federal Government last year was \$15 million or \$6,139 per 7(m) microloan.
- Continued support of the Microloan Program is cost prohibitive

STRATEGIC GOAL THREE

Restore homes and businesses affected by disaster

Through its Office of Disaster Assistance, the SBA is responsible for providing affordable, timely and accessible financial assistance to homeowners, renters and businesses following a disaster. Financial assistancies available in the form of low-interest, long-term loans.

Long-term Objective 3.1

Restoration-Restore homes and businesses affected by disaster.

Key Results & Cost-Related Performance

Results and Resources								
SBA Annual Outcome Measures								
SBA Annual Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
3.1.1 Percentage of small businesses operational 6 months after Economic Injury Disaster Loan (EIDL) disbursement.	N/A ¹	N/A	N/A	N/A	N/A	75%	76%	80%
3.1.2 Percentage of businesses receiving financial assistance to repair or replace damaged property restored within 6 months of final loan disbursement.	N/A	N/A	N/A	N/A	N/A	50%	55%	70%
3.1.3 Percentage of individuals receiving financial assistance to repair or replace disaster-damaged homes have restored their property within 6 months of final disbursement (Homeowners).	N/A	N/A	N/A	N/A	N/A	N/A	N/A	85%
SBA Annual Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Applications Processed	106,442	158,104	88,837	N/A	102,278	N/A	N/A	N/A
Number of Original Loans Approved	28,218	48,852	21,829	N/A	25,856	N/A	N/A	N/A
SBA Annual Cost								
SBA Outcomes Cost	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
Disaster Assistance	\$293,822	\$277,074	\$346,723	\$236,252	\$270,377	\$242,638	TBD ²	TBD

¹ N/A = Not Applicable

² TBD = To Be Determined

Summary of Program Performance

At the end of FY 2003, SBA implemented a new strategic plan outlining measures to ensure it efficiently restored homes and businesses affected by disaster. These new measures, which will be incrementally implemented starting in FY 04, and fully realized by FY 2008, include new outcome measures as set forth above, and new output measures. We will process 85% of home loan applications within 10 days by 2008, and business and economic injury loans (EIDL) in 16 days by 2008. While the new outcome measures in the above chart cannot predict the number of disaster loans which will be needed in any one fiscal year, ODA is proud that we provided disaster loan applicants assistance in the form of 25,856 loans during FY 2003.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: This report describes financial aspects of programs involved in supporting this Objective:

- Independent Auditor's Report, Disaster Loan Program Model (see FY 2002 PAR page 117, 122-123)
- Notes to Financial Statements, Note 6.R. Credit Program Subsidy: Direct Loan Programs, the Disaster Loan Program (see FY 2002 PAR, page 171)

Management Issues

Inspector General Reports: The following OIG reports cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

- OIG Audit Report 3-13. Audit of Economic Injury Disaster Loans (see PAR, Appendix 1)
- OIG Audit Report 3-39. Monitoring of SBA's Implementation of the Disaster Credit Management System (see PAR, Appendix 1)

General Accounting Office Reports: GAO has issued a report that relates to SBA's response to September 11 victims. It has been closed. SBA has taken and continues to take appropriate action.

GAO-03-385, SBA: Response to September 11 Victims and Performance Measures for Disaster Assistance (see PAR, Appendix 2)

OIG-Identified Management Challenges: No significant related issues

OMB PART Evaluation: OMB has conducted PART evaluation of an SBA program that supports accomplishment of this Objective. This program received the weighted score shown below:

- Office of Disaster Assistance (ODA): 82% -- Moderately Effective (see PAR, Appendix 4)

Forward-Looking Comments

ODA has a fixed annual budget, so significant variances in the number or scope of disasters may lead to funding shortfalls. Additional funding comes from supplemental appropriations, which are not guaranteed. This may mean that ODA must limit its hiring, overtime, and field operations in times when funds are low, which may directly impact ODA's ability to meet many of its program goals. Also, disasters of large size and scope may present a number of future challenges to ODA. There may not be ample staff to immediately respond to the needs of all victims. There may not be enough qualified contractors to quickly repair or rebuild the significant number of physical structures damaged. There may also be instances where the damage is so extensive that long-term financial recovery provided by ODA is not the immediate concern of the disaster victims.

Long-term Objective. 3.2

Provide courteous and professional customer service.

Key Results Cost-Related Performance

Results and Resources								
SBA Outcome Measures								
SBA Outcome Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
3.2.1 Provide courteous, professional and customer friendly disaster program delivery to loan applicants as measured by ACSI.	N/A ¹	N/A	N/A	N/A	N/A	70.00%	70.50%	72.20%
SBA Output Measures								
SBA Output Measures	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2003 Actual	FY 2004 Goal	FY 2005 Goal	FY 2003-2007 Goal
3.2.1 Provide courteous, professional and customer friendly disaster program delivery to loan applicants as measured by ACSI.	N/A	N/A	N/A	N/A	N/A	70.00%	70.50%	72.20%

Cost-Related Performance

All costs associated with the Office of Disaster Assistance are reported under long-term objective 3.1.

Summary of Program Performance

SBA is committed to providing quality customer service. We have identified an outcome to measure our success in providing courteous, professional and customer friendly disaster program delivery to loan applicants as measured by the American Customer Satisfaction Index (ACSI). While no specific costs have been identified in achieving this objective, it is our goal to achieve a 72 percent customer satisfaction rate by FY 2008.

¹ N/A = Not Applicable

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: No significant related issues

Management Issues

Inspector General Reports: No significant related issues

General Accounting Office Reports: GAO has issued a report that relates to SBA's response to September 11 victims. It has been closed. SBA has taken and continues to take appropriate action.

- GAO-03-385, SBA: Response to September 11 Victims and Performance Measures for Disaster Assistance

OIG-Identified Management Challenges: No significant related issues

OMB PART Evaluation: No significant related issues

STRATEGIC GOAL FOUR

Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services

This goal recognizes the fact that SBA was created for the purpose of fulfilling its programmatic responsibilities of serving the interests of small business. SBA's non-programmatic areas of general management and administration and the various other support functions exist primarily for the purpose of supporting the SBA program areas in fulfilling their own objectives. For this reason, the best measure of successful leadership and support is the degree to which these functions help maximize the efficiency and effectiveness of SBA in achieving its programmatic goals, while also complying with relevant statutory and administrative mandates.

Long-term Objective 4.1

SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.

Key Results & Cost-Related Performance

This is a new long-term objective identified in the SBA strategic plan which was developed at the end of FY 2003. Key results, cost related performance, summary of program performance, and financial reporting are not available.

Management Issues

Inspector General Reports: The following OIG report cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

- OIG Inspection Report 3-28. Advisory Memorandum: Problems with SBA's Directives System (see PAR, Appendix 1)

General Accounting Office Reports: GAO has issued several reports where recommendations remain open that relate to issues under the executive leadership of the Agency. SBA has taken and is taking appropriate action.

GAO-03-90, SBA: *Progress Made but Improvements Needed in Lender Oversight* (see PAR, Appendix 2)

GAO-01-192, SBA: *Actions Needed to Strengthen SBLC Oversight* (see PAR, Appendix 2)

OIG-Identified Management Challenges:

- *Challenge 1. SBA needs to improve its managing for results processes and performance data* (see PAR, Appendix 3)

OMB PART Evaluation: This program has not been evaluated by OMB.

Agency Response to Management Challenge:

Challenge 1. SBA needs to improve its managing for results processes and performance data.

SBA is creating the Office of Analysis, Planning and Accountability to focus on this issue and placing special emphasis on the verification and validation of performance data. SBA also implemented a web-based Execution Scorecard where each program area and district office is held accountable for establishing clear programmatic goals and performance measures, and providing a report on the status of their initiatives.

The FY 2004 budget submission call specifically instructed program offices to request resources for establishing appropriate performance measures. The Agency's 2005 budget submission and five year Strategic Plan clearly articulated measurable program goals and objectives. The results of the FY 2003 cost allocation survey have been linked to the allocation of the operational budget for the

various programs and their goals for the 2004 fiscal year. Also, the cost data has been consolidated by strategic goal to allow for cost efficiency comparison.

The new Strategic Plan will also be used by SBA's employees to develop their Personal Business Commitments.

The OCFO provided training about the performance process, including PART evaluations, performance and budget integration, annual performance plan, etc. In addition, SBA internally applied the PART to all the programs to measure program efficiency and cost effectiveness.

Long-term Objective 4.2

SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers

Key Results & Cost-Related Performance

This is a new long-term objective identified in the SBA strategic plan which was developed at the end of FY 2003. During FY 2003, costs were allocated across the first three strategic goals.

Summary of Program Performance

During FY 2003, SBA analyzed its organizational structure, considered various options and began implementing changes, including competitive sourcing initiatives, to optimize its organizational structure. The Agency contracted with the Office of Personnel Management's (OPM) San Francisco Service Center to conduct an Agency-wide skills/gap analysis. Phase I, of this plan was completed in June 2003. SBA successfully negotiated and signed a Memorandum of Understanding with AFGE Council 228 on implementing a district office pilot to test the viability of consolidating "backroom" activities into centralized centers, and improving outreach and customer service by making a greater percentage of district office staff available for direct customer support and program delivery. The Agency also implemented a new Performance Management Appraisal System designed to clearly link strategic goals to individual Personal Business Commitment Plans and to differentiate clearly between various levels of performance. There was also established a new awards program recognizing team management, goal achievement, and customer service for both Headquarters and Field Staff. The recognition of those making the greatest contributions to the accomplishment of SBA's mission and goals and the PMA will fuel internal competition to be recognized as the best, resulting in enhanced mission accomplishment throughout SBA.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: No significant related issues

Management Issues

Inspector General Reports: The following OIG reports cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

- OIG Inspection Report 2-20. Modernizing Human Capital Management (see PAR, Appendix 1)

General Accounting Office Reports: No significant related issues

OIG-Identified Management Challenges:

- *Challenge 4.* Maximizing program performance requires that SBA fully develop and implement its human capital management strategy (see PAR, Appendix 3)

OMB PART Evaluation: This program has not been evaluated by OMB.

Agency Response to Management Challenge:

Challenge 4. Maximizing program performance requires that SBA fully develop and implement its human capital management strategy.

SBA developed its Human Capital Plan, linking it to the Agency's Strategic Plan and Transformation Strategy. The Plan addresses all six Standards for Success in the Human Capital Framework jointly published by GAO, OMB and OPM. The Plan is a living document and will be modified as necessary to address changing customer, work load, work force and budget realities.

OHR is conducting an Agency-wide workforce / gap analysis. SBA's Senior management has identified the functions that need to be performed by SBA today and the Agency is testing these tasks during a one-year pilot. Current transformation initiatives include District Office Pilots, Competitive Sourcing, and Liquidation Initiatives.

The SBA adopted OPM's Leadership Effectiveness Inventory as part of its competency development process. OPM will send the Agency aggregate information related to the 26 leadership competencies measured and each District Director will receive an individualized assessment report. SBA also now participates in an interagency SES support group.

Long-term Objective 4.3

Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.

Key Results & Cost-Related Performance

This is a new long-term objective identified in the SBA strategic plan which was developed at the end of FY 2003. During FY 2003, costs were allocated across the first three strategic goals.

Summary of Program Performance

During FY 2003, the Agency made substantial progress in addressing the issues raised by its independent auditor in the FY02 financial audit, including building new subsidy models, reengineering the financial reporting process, and addressing internal control weaknesses. At the end of FY 2003, SBA implemented a new lender monitoring system (LMS). We also introduced a new econometric model for the 7(a) loan guarantee program. SBA expanded its examinations of small business lending companies (SBLCs). We made significant progress in integrating the measurement of our performance with the budgeting process. We finalized a new five-year strategic plan and implemented an internal scorecard process. During FY 2003, a total of six SBA programs were reviewed through OMB's PART process.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: This report describes financial aspects of programs involved in supporting this Objective:

- Independent Auditor's Report, Financial Reporting Process (see FY 2002 PAR, pages 124-126)
- Independent Auditor's Report on Compliance with Laws and Regulations (see FY 2002 PAR, pages 131-133)
- Notes to Financial Statements, Note S. Loan Asset Sales (see FY 2002 PAR, page 171)

Management Issues

Inspector General Reports: The following OIG reports cover issues relating to SBA programs that have an impact on accomplishment of this Objective:

OIG Audit Report 3-32. Audit of SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System (see PAR, Appendix 1)

- OIG Audit Report 3-34. Audit of SBA's Compliance with Joint Financial Management Improvement Program Property Management System Requirements (see PAR, Appendix 1)
- OIG Audit Report 3-42. Audit of Travel Card and Purchase Card Controls (see PAR, Appendix 1)

General Accounting Office Reports: GAO has issued several reports where recommendations remain open that relate to improving SBA's financial management and oversight practices in support of this Objective. SBA is taking appropriate action.

- GAO-03-87, SBA: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain (see PAR, Appendix 2)
- GAO-03-90, Progress Made but Improvements Needed in Lender Oversight (see PAR, Appendix 2)

OIG-Identified Management Challenges:

- *Challenge 2.* SBA faces significant challenges in financial management and reporting which affects its ability to provide reliable, timely and accurate financial information (see PAR, Appendix 3)

OMB PART Evaluation: This program has not been evaluated by OMB.

Agency Response to Management Challenge:

Challenge 2. SBA faces significant challenges in financial management and reporting which affects its ability to provide reliable, timely and accurate financial information.

During FY 2002, three key items were identified in the disclaimer opinion: the disaster loan and asset sales program cost estimates, the Master Reserve Fund Secondary Market Guarantee (MRF/SMG) residual value estimate, and the liability for loan guarantees for pre-1992 loans. SBA developed new subsidy estimate models for the Disaster and the MRF/SMG programs as recommended by the auditor last year. SBA's new disaster loan model substantially addressed the outstanding asset sales issues. SBA also addressed the pre-1992 loan guarantee issue, and Cotton & Co. agreed that the issue had been resolved in FY03. The SBA also worked with the OMB to develop the accounts and procedures to comply with the OMB's edict to include the MRF under Federal Credit Reform requirements.

SBA has also taken steps to improve its financial reporting process. The OCFO expanded upon the financial reporting manual containing documentation on the production and quality assurance (QA) processes for reporting. This manual is updated as new reporting requirements are received, and to respond to audit findings and recommendations, and as the OCFO continues to automate and improve processes. We updated our financial reporting project plan, developed new input and validation screens, and updated crosswalks, mappings and QA checks to improve the quality of the data. We also implemented a new review process of the administrative general ledger, automated additional adjusting entries and developed a new table-driven general ledger closing process, automated the posting of administrative expenses to programs, and developed a new accrual process for grant expenses. The OCFO has made modifications to the division of labor (between headquarters and Denver). Finally, the OCFO engaged contract assistance to support the quality assurance function.

However, because our ambitious subsidy model development agenda required more time than was available this year, insufficient time was left for the SBA to complete its established quality assurance review process prior to the completion of the FY 2003 financial statements. Thus our financial reporting was still found to be a material weakness in the FY 2003 audit despite our improvements. Completing our financial reporting work in a timely and thorough manner is the highest financial management priority for SBA in FY 2004.

Long-term Objective 4.4

Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.

Key Results & Cost-Related Performance

This is a new long-term objective identified in the SBA strategic plan which was developed at the end of FY 2003. During FY 2003, costs were allocated across the first three strategic goals.

Summary of Program Performance

SBA implemented services enabling real-time online backup and data recovery for the LAN/WAN, via Iron Mountain and Live Vault. Over 95% of migration was completed to Microsoft's Windows2000/Office XP office automation platform and remaining computers that did not meet the necessary standards were replaced. Microsoft's E-Policy for server and desktop virus protection management and reporting was implemented, enabling network staff to verify that PCs and servers are running current anti-virus software. The Microsoft Windows 2000 distributed file system was used to deploy security hot fixes, patches and anti-virus engines to all Agency workstations. SBA's WAN was upgraded by replacing 93 obsolete routers and updating related operating system software. In support of SBA's telecommuting initiative and other remote access needs, over 1,000 remote users were transitioned to a VPN System.

In support of the SBA Workforce Transformation Initiative and 7(a) Purchase Centralization Pilot, a web-based system was developed to track the purchase activities of guaranteed loans. The MicroLoan Improvement Project integrated four Sybase applications into a single Internet-based system available to all users. It reduced the need for duplicate data entry in multiple systems and offers improved reporting. SBA's Executive Scorecard application was upgraded and a video training module was created that was delivered via Internet and CD. SBA established the Office of E-Government to provide strategic planning, management and oversight of all SBA e-government programs.

SBA delivered over 127 courses to Agency employees through the use of Internet and e-mail based remote training, and through classroom courses. Over 14,000 web-based course modules were used by more than 1,040 staff during the year.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: This report describes financial aspects of programs involved in supporting this Objective:

- Independent Auditor's Report on Internal Controls, Agency-Wide Information Systems Controls (see FY 2002 PAR, pages 128-129)

Management Issues

Inspector General Reports: The following OIG report cover issues relating to SBA programs that have an impact on accomplishment of this Objective: OIG Audit Report 3-37. Independent Evaluation of SBA's Information Security Program (see PAR, Appendix 1)

General Accounting Office Reports: This program has not been evaluated by OMB.

OIG-Identified Management Challenges:

- *Challenge 3.* Information systems security needs improvement (see PAR, Appendix 3)

OMB PART Evaluation: No significant related issues

Agency Response to Management Challenge:

Challenge 3. Information systems security needs improvement.

OCIO developed a draft Strategic Plan and revised SOP 90 47 1, both are in clearance. OCIO has also issued Notices concerning Separation of Duties, Rules of Behavior, Managing Security Alerts and Vendor Patches, System and Application Audit Logs and Trails, Mandatory End User

Training, and Mandatory DSO/IRM/FITS Training. The Agency modified the Computer Security Awareness Training modules, developed a database to monitor employee and contractor completion, and coordinated with managers to ensure all SBA's employees and contractors comply.

The Agency conducted an annual test on the mainframe and performed network scans, distributed reports to appropriate network managers and followed up on corrective action, participated in inter-Agency meetings on physical security and provided security awareness training to employees. Data was collected to monitor and measure progress in the security program, incident data was collected daily and reported to FedCIRC monthly. The SBA will continue to implement policies, conduct self-assessments and reviews to improve the security program and collect data to help measure the effectiveness of the program.

Long-term Objective 4.5

Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals.

Key Results & Cost-Related Performance

This is a new long-term objective identified in the SBA strategic plan which was developed at the end of FY 2003. During FY 2003, costs were allocated across the first three strategic goals.

Summary of Program Performance

During FY 2003, SBA updated its FAIR Act inventory, which now shows that 2,402 (or 66%) of its FTEs are devoted to performing commercial activities that could be subject to competitions. This compares to 2,905 FTEs reported in FY 2002. For the Office of Disaster Assistance, three streamlined competitions were initiated and completed for nationwide assistance to ODA in the following areas: clerical (80 FTEs), customer service representatives (102 FTEs), and mail room center operations (8 FTEs). This provides savings to the taxpayers in that will amount to \$1.6 million over the next 5 years. A streamlined competition was also initiated for the General Counsel's Office for nationwide paralegal support involving 40 FTEs, and one for SBIC examinations involving 26 FTEs. As a result, the paralegal activities will be retained in-house, while the SBIC examination activities will be transferred to a private sector contractor. These two competitions result in an additional calculated economic savings to the taxpayers of \$2.7 million to be realized over three years. On December 31, 2003, SBA announced its intent to conduct two standard competitions for its Office of GC/BD application processing and review activities in the 8(a), Small Disadvantaged Business and Hubzones programs involving about 80 FTEs, and the Office of EEO&CRC compliance review activities involving about

10 FTEs. Performance decisions on these two additional competitions are anticipated by September 30, 2004.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY 2002: No significant related issues

Management Issues

Inspector General Reports: *No significant related issues*











General Accounting Office Reports: *No significant related issues*

OIG-Identified Management Challenges: *No significant related issues*

OMB PART Evaluation: *This program has not been evaluated by OMB*

PRESIDENT'S MANAGEMENT AGENDA STATUS

SBA is committed to achieving full compliance with the five initiatives on the PMA. OMB's most recent assessment of SBA's effort is summarized in the chart below:

Initiative	Status	Progress
Human Capital The Agency will retrain its staff and pursue policies to more effectively reach out to America's 25 million small businesses. SBA's goals are to provide field offices with greater flexibility to manage programs based upon the needs of the local community and to centralize loan processing to improve customer service. SBA has assessed the skills of its staff, committed funds to training them in marketing and outreach, and developed new performance standards to hold staff accountable for their service to SBA customers. (See Performance Report, Long-Term Objective 4.2)	 Yellow	 Green
Competitive Sourcing SBA has conducted an inventory and identified staff positions that should be subjected to a public-private should competition in 2003. (See Performance Report, Long-Term Objective 4.5)	 Red	 Green
Financial Performance SBA deteriorated in this initiative because it has encountered significant challenges in accounting for loan asset sales, meeting accounting performance standards, and measuring risk in its loan portfolio more accurately. (See Performance Report, Long-Term Objective 4.3)	 Red	 Yellow
Enhancing E-Government SBA, in partnership with Federal agencies and state governments has developed the Business Compliance One-Stop, part of the BusinessLaw.gov on-line system to help entrepreneurs easily find, understand, and comply with the myriad of regulations that affect their businesses. (See Performance Report, Long-Term Objective 4.4)	 Yellow	 Yellow
Budget/Performance Integration SBA is strong in some areas of budget performance and integration, however, it needs to develop outcome measures for technical assistance programs and make funding decisions according to expectations of program performance. (See Performance Report, Long-Term Objective 4.3)	 Yellow	 Green

SBA ACTIONS IN RESPONSE TO OMB'S PART EVALUATIONS

SCORE

For the second year, the SCORE program underwent OMB's PART process with the result that the numerical score for the program was raised substantially in almost all areas under assessment. As a volunteer program where the value of the counseling volunteerism is conservatively estimated in excess of \$65 million versus appropriated funds of \$5 million, the value and results from this program versus the cost are significant. For FY 2003, SCORE exceeded its annual target goal for clients counseled and trained by 2% and increased its online counseling from 25% of total counseling sessions to almost 35%. In addition, SCORE goals and outcome measures were incorporated into SBA's strategic plan and performance criteria were incorporated into management evaluations.

In response to the FY 2004 PART process, the Administration committed to developing outcome-oriented annual and long-term goals and measures and undertaking an evaluation of the program's effectiveness to include such issues as duplication with other Federal programs. The Administration developed and/or refined annual outcome goals for this program based on the capacity of the SCORE program and SBA to capture the appropriate information. It revised the intake forms which collect client counseling and training information to improve the capture of impact data and continued with development of EDMIS, a centralized database. By 3rd quarter FY 2004, SBA's Office of Entrepreneurial Development (ED) will have conducted SBA's first independent impact survey of its technical assistance programs, creating a baseline from which performance measurements and future outcome goals can be developed. ED will also have begun the process of developing SBA's first methodology by which it will evaluate independently its programs, including SCORE, completing at least one by FY 2005.

Small Business Development Centers (SBDCs)

As the largest of SBA's Entrepreneurial Development programs, the SBDC program made a number of improvements to its planning, management and results/accountability areas to enable its FY 2005 PART scoring to improve quite dramatically. Among those were strengthening grantee reporting, drafting legislative changes to develop partial funding for incentive-based performance and clarifying the unique role of the program.

In response to the FY 2004 PART process, the Administration committed to developing outcome-oriented annual and long-term goals and measures and undertaking an evaluation of the program's effectiveness to include such issues as duplication with other Federal programs. The Administration developed and/or refined annual outcome goals for this program based on the capacity of the SBDC program and SBA to capture the appropriate information. It revised the intake forms which collect client counseling and training information to improve the capture of impact data and continued with development of EDMIS, a centralized database. By end of

3rd quarter FY 2004, SBA's first independent impact survey of all its Entrepreneurial Development programs will have been completed, creating a baseline from which performance measurements and future outcome goals can be developed. The Administration has also begun the process of developing the methodology by which it will evaluate its Entrepreneurial Development programs, including SBDCs, and complete at least one program evaluation by FY 2005.

Business Information Centers (BICs)

The BICs underwent careful scrutiny as part of the FY 2004 and FY 2005 PART process resulting in an internal re-evaluation of the centers to determine their usefulness and effectiveness. Issues involved management oversight, performance measures, uniqueness of role and mission, incentive-based performance and cost benefit. In response to the PART process, in order to reduce program costs and increase community integration, SBA redefined this initiative from a program to a resource tool available to SBA field offices and resource partners. As part of this re-evaluation, ninety-eight percent of BIC locations will be at shared community facilities with partner involvement, resulting in, among other things, a reduction of program cost (via the Agency Cost Allocation Survey) from \$12 million to \$8.5 million.

In response to the FY 2004 PART process, the Administration committed to developing outcome-oriented annual and long-term goals and measures and undertaking an evaluation of the program's effectiveness to include such issues as duplication with other Federal programs. The Administration developed and/or refined annual outcome goals for this program based on the capacity of the BICs and SBA to capture the appropriate information. It revised the intake forms which collect client counseling and training information to improve the capture of impact data and continued with development of EDMIS, a centralized database. By end of 3rd quarter FY 2004, SBA's first independent impact survey of all its Entrepreneurial Development programs will have been completed, creating a baseline from which performance measurements and future outcome goals can be developed. The Administration has also begun the process of developing the methodology by which it will evaluate its Entrepreneurial Development programs, including BICs, by FY 2005.

504 Loans

The PART findings are being addressed in the following manner:

1. The 2004 Budget proposes to increase program evaluations to determine the factors that affect both demand and performance in the 504 and 7(a) programs.

The Agency has established the office of Policy and Planning and it is in the process of establishing the Office of Analysis, Planning and Accountability. CA will be working with them to study demand and performance measures.

2. The proposed funding for evaluations would also be used to compare the cost of 504, private sector, and 7(a) loans.

The Agency currently does not have the process or ability to track and report either longevity or revenues increase for the 7(a), 504, or Microloan Programs. Our FY2005 budget estimate requests funds to contract with a private sector vendor to demonstrate how our programs correlate to these outcomes – longevity and revenues increase.

3. Through a proposed regulation, SBA will solicit the public's view on developing long-term goals for its strategic plan and increasing borrower choice for 504 and 7(a) loans.

SBA has solicited public comments regarding proposed changes the 504 program. The proposed rule received over 1900 comments from bankers, lenders, program participants and small business people. Prior to publishing the final rule, the Agency also received approximately 80 comments. Including input from the public, SBA published the final rule.

The final rule should increase both the number of 504 loans made nationally, and also increase the number of intermediaries that participate in the program. Previously, many CDC's had exclusive territories that limited the penetration into the small business community. With the publishing of the final rule, competition will be introduced that allows CDC's to do statewide lending. SBA believes that the program will increase its lending to small businesses nationally.

SBA has incorporated the 504 program into the SBA strategic plan. The plan covers both the continued efforts to improve the program, outcomes/deliverables that will be attained annually and long term objectives. As a result of the comments received in the final rule, SBA will further refine the goals within the strategic plan in FY04.

ANALYSIS OF FINANCIAL RESULTS

This is the thirteenth year that the Small Business Administration (SBA) has issued audited Agency-wide financial statements. These financial statements have been prepared in accordance with guidance issued by the Office of Management and Budget (OMB) pursuant to the Chief Financial Officers (CFO) Act of 1990. The Introduction to the Financial Statements and the Notes to the Financial Statements in this report provide more information on the SBA's financial results and the preparation of the financial statements.

Background

The SBA is the smallest of the major Federal credit agencies, behind the Department of Agriculture, Department of Education, the Department of Housing and Urban Development and the Department of Veterans Affairs. The SBA's portfolio includes approximately \$50 billion of loan guarantees and defaulted loan guarantees, as well as loans made directly to the victims of natural disasters and in the Agency's microloan and SBIC direct lending programs.

The SBA's assets and liabilities are mostly the result of its credit program activities, including: fund balances with Treasury, credit program receivables, liabilities for loan guarantees, Treasury debt and other asset and liability accounts. The SBA's loans and guarantees are financed by a combination of two sources: one for the long-term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress provides appropriations to cover the estimated long-term costs of SBA loans, which are defined as the net present value of the estimated cash outflows and inflows associated with the loans. The remaining portion of each direct loan that does not represent long-term cost is financed under a permanent indefinite borrowing authority to borrow funds from the U.S. Department of the Treasury. For loan guarantees, the amount provided to SBA for the cost of the loan accumulates interest until the funds are needed to purchase defaulted guarantees or to pay liquidations expenses. Additional funds may be borrowed from Treasury for defaulted loan expenditures that will be repaid from liquidation recoveries.

Credit program receivables for SBA are comprised primarily of the following loan and guarantee programs:

- (1) Business Guarantees including 7(a), 504 Development Company and SBIC debentures and participating securities,
- (2) Business Direct including Microloans and SBIC direct debentures and preferred stock,
- (3) Disaster Direct loans to help businesses and homeowners recover from disasters.

Direct loans are accounted for as credit program receivables at the time they are disbursed. Defaulted SBA guarantees become loan receivables when they are purchased by the Agency. For loans obligated prior to October 1, 1991, loans receivable are adjusted by an allowance for estimated uncollectible amounts. For Credit Reform loans obligated on or after October 1, 1991, the loans

receivable are adjusted by an allowance equal to the present value of the subsidy costs (due to the estimated delinquencies and defaults net of recoveries, the offset from fees, the interest rate differential between the loans and Treasury borrowing, and other estimated cash flows) associated with these loans. This allowance is re-estimated on an annual basis.

Financial Statement Results

Total SBA's assets of \$7.1 billion at FY 2003 yearend include essentially:

\$2.8 billion – cash reserves at Treasury to finance the SBA's credit programs

\$4.3 billion – direct loans and defaulted guarantees

\$7.1 billion.

Total assets decreased \$5.0 billion from fiscal yearend FY 2002, primarily as a result of a \$4.7 billion reduction of Treasury cash reserves from SBA's repayment of Treasury borrowings, and also from \$.3 billion of loan receivable liquidation. The future trend of SBA's total assets will depend on the net effects of new loan receivables, including defaulted guarantees and SBIC advances, as well as the liquidation and sale of loan assets.

Total Liabilities of \$10.3 billion at FY 2003 yearend include essentially:

\$ 6.7 billion – Debt and payables to Treasury

\$ 0.8 billion – Payable to Treasury for loan liquidation and cost reestimates

\$ 2.6 billion – Liabilities for loan guarantees (credit subsidy)

\$ 0.2 billion – Benefits and other payables

\$10.3 billion

Total liabilities at the FY 2003 were down \$3.6 billion from the previous year as the result of a \$4.8 billion decrease in Treasury borrowings along with a \$1.3 billion increase in the liability for loan guarantees from increased credit cost estimates.

Net Position of \$(3.2) billion at FY 2003 yearend included:

\$.8 billion – unexpended appropriations

\$ (4.0) billion – cumulative results of operations.

\$ (3.2) billion

The change in net position from FY 2002 was a \$1.4 billion decrease due to a decrease in the cumulative results of operations.

Analysis of Major Balances

The major financials statement balances are discussed below. Additional detail is available in the Introduction to the Financial Statements and the Notes to the Financial Statements in this report

SBA's fund balances with Treasury primarily support the SBA's credit programs. The SBA does not conduct treasury operations. Cash receipts and disbursements are processed by the U.S. Department of the Treasury. Fund balances with Treasury are comprised of appropriated funds and Treasury borrowings. SBA's fund balances are available to pay current liabilities on loan receivables and to make new loans and purchase guarantee defaults, and for the servicing and liquidation of these new

receivables. During FY 2003, the fund balance in Treasury decreased from \$7.5 Billion to \$ 2.8 billion as a result of SBA's repayment of Treasury borrowing.

Credit Program Receivables decreased \$.3 billion during FY 2003 (\$4.6 billion to \$4.3 billion.) Loan receivables include defaulted guaranteed loans to be liquidated by the SBA and Disaster loans. Although SBA's loan receivables outstanding were essentially unchanged during FY 2003, an increase in the estimated costs of credit programs resulted in the \$.3 billion decrease in net receivables. Advances of interest to the holders of SBIC securities are also included in credit program receivables (\$.5 billion in FY 2003 and \$.4 billion in FY 2002.) FY 2002 credit program receivables were restated in this report to include the increase in the estimated costs of credit programs for prior years and this decreased the FY 2002 ending balance from \$5.5 billion previously reported to \$4.6 billion in this report.

Debt owed to Treasury is the largest intra-governmental liability on the SBA's financial statement, and detail on this item is provided in footnote 10. The unsubsidized portions of SBA's Disaster and other direct loans are financed by Treasury borrowings. During FY 2003, Treasury debt decreased from \$11.1 billion to \$6.7 billion as the results of the SBA's repayment of Treasury borrowing. This was to reduce unneeded borrowings primarily for the Disaster program.

Liabilities for Loan Guarantees at \$2.5 billion are most of SBA's liabilities to the public. It increased from \$1.2 billion in FY 2002 as the result of an increase in the estimated credit subsidy cost for guaranteed loans. This is the estimated cost of SBA's guarantees outstanding for Federal Credit Reform loans made on or after October 1, 1991, plus the liability for the loans made prior to October 1, 1991. The cost of SBA's guarantee programs under Federal Credit Reform is estimated initially and reestimated annually. It depends on the operation of the programs, economic conditions, interest rates and offsetting fees collected. This amount will grow with the portfolio and increase or decrease depending on the aforementioned cost factors.

Asset Sale Program

The SBA beginning in FY 1999 sold \$5.7 billion of loan assets, of which about \$4.9 billion was Disaster loan receivables. While the SBA did benefit from the reduction in the direct loan servicing portfolio, based on the analysis the Agency has completed in the past year, the asset sale program has been an overall loss for the SBA. Based on results from internal reviews, the January 2003 GAO report on the SBA's loan asset program, and the issues raised in the FY02 "disclaimed" audit opinion, SBA conducted a thorough analysis of the Disaster loan program budget and accounting results this year. While the review was completed the asset sales program was put on hold and based on the results, the program was discontinued.

The SBA found that the previous Disaster loan program model had been underestimating the baseline program cost. We also found that the Disaster "hold" model used for the loan sales was substantially underestimating the cost of the loans being sold. To address these problems, SBA developed a new budget model to estimate the cost of the Disaster loan program and the impact of the asset sales program. The SBA's new loan-level Disaster credit subsidy model was designed to be used for both the loan sale valuations and the subsidy reestimates to ensure consistency across the budget and accounting computations.

Using the new model, we determined that the total losses incurred on the SBA Disaster loan sales program was \$909 million. In addition, on average, the baseline Disaster loan program subsidy cost increased by 3.6%. The financial statements include an upward reestimate totaling \$978 million which reflects both the impact of the new budget model and the asset sales. This upward reestimate has substantially resolved the "unnatural balances" problem identified by the independent auditor and GAO last year. We are confident that the new Disaster model will be an effective tool in measuring the cost of the program going forward and that this problem has been resolved.

INTERNAL CONTROLS

The SBA has a variety of monitoring and review activities that support its internal controls. These include lender oversight, follow up of OIG and GAO audits, and other management oversight and review activities. An OCFO internal control project team helps SBA program managers and promotes internal controls throughout the Agency.

SBA has taken proactive action to improve its internal control program requiring the active involvement of field and Headquarters managers. Annually, senior Headquarters managers submit to the CFO assertion letters on the status of their respective organizations' internal controls. The managers employ various assessment tools in their internal control assessments, including risk and control assessment models, functional checklists, facilitated workshops and computer based training. The managers' assertions take into account the results of various internal control methods employed by their organizations and discuss corrective actions taken on any weaknesses identified by the GAO, OIG or through the local internal control process.

Each year, the Office of Field Operations (OFO) reviews the assertion letters from the field managers to ensure that any areas of concern noted by these managers, and any reported trends were incorporated into the Agency's internal control efforts. Based on its review of the field assertion letters, the OFO provides comments to the CFO. The CFO reviews the OFO comments and the assertion letters from the senior Headquarters managers to determine whether outstanding audit issues were adequately addressed and whether each manager took the appropriate corrective action.

The SBA's OIG conducts audits and inspections of the Agency's operations and its financial reports. The OCFO works closely with SBA management and the OIG to complete actions necessary to respond to recommendations in final audit reports issued by the OIG. Managers receive and analyze audit reports and provide timely responses to the OIG and the OCFO, taking corrective action when appropriate. The OCFO tracks the completion of these audit recommendations. The OCFO also posts on the SBA's Intranet the status of all open OIG recommendations.

The GAO conducts audits and reviews of Agency programs and operations. Some of the reports contain specific recommendations for improving Agency program delivery and operations. All GAO audits are scheduled through the Office of Congressional and Legislative Affairs, which tracks replies to the GAO and Congress.

Management of the SBA works with the OIG to develop the Agency's Management Challenges and actions needed to address the challenges. The OCFO tracks the completion of these action items and posts the status of the Management Challenges on the SBA's Intranet for managers' information.

Strong internal controls promote sound stewardship through more effective working relationships with SBA's resource partners. The internal control program also provides both internal and external parties assurance that SBA programs and activities are administered soundly and taxpayer funds are used responsibly.

FMFIA ASSURANCE STATEMENT

Fiscal Year 2003

The Small Business Administration (SBA) continues to strengthen its internal control program and substantial improvements were made during the past year. Our external auditor, however, issued a "disclaimer" in its FY 2003 financial statement audit. The costs of the SBA's credit programs and the 7(a) Secondary Market Guarantee (SMG) were cited as reasons for the "disclaimer". The primary reason for the disclaimed opinion was that SBA was late in completing its models and financial statements and did not leave sufficient time for the auditor to conduct its testing and reviews, particularly of the credit subsidy models and related accounting transactions. While we accept this result, we believe it is more a reflection of the timing constraints of the financial reporting process and the audit than a meaningful representation of the quality of the Agency's final financial statements.

During 2003, the SBA rebuilt the economic models used to forecast its Disaster and SMG programs cost, and also completed major updates to the credit subsidy models for its 7(a), 504 and SBIC loan programs. These significant updates to our credit subsidy models have greatly improved our credit program costs estimates. The results of the new Disaster subsidy model also resolved the issue raised in 2002 as to the true financial results of the SBA's loan asset sale program. The General Accounting Office (GAO) issued a report in January 2003 on the SBA loan sale program and GAO has informed SBA that it will audit credit program results again in 2004.

The internal controls for SBA's program operations have continued to show improvement this year and the system in place is basically sound. The SBA's oversight of lender operations has been strengthened including the measurement of financial risk, the acquisition of a lender monitoring system and the redesign of the lender review process over 504 Certified Development Companies. The SBA's internal control process is discussed in this report. It is continuous throughout the year and requires the active involvement of field and Headquarters managers. At the end of the year, Agency managers issue their assertion as to the status of their internal controls. These assertions are supported by checklists, reviews and other management activity, and form the basis for this internal control assurance letter.

For similar reasons as stated above, the SBA's independent auditor also reported that the SBA does not meet the requirements of Federal Financial Management Improvement Act (FFMIA). Therefore, I cannot certify that SBA is in compliance with FFMIA.

Overall, I am providing a "qualified" assurance that SBA's internal controls are achieving their intended objectives in accordance with the Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act (FMFIA). I am qualifying this assurance because of the two material internal control weaknesses reported in the FY 2003 financial statement audit related to SBA's credit subsidy and financial reporting processes.

We have substantially improved our credit subsidy estimate and reporting processes, and we will make more progress in these areas in FY 2004. I am confident that these improvements will be reflected in improved SBA audit results in FY 2004. I will continue to take corrective action until all the audit issues are resolved.



Hector V. Barreto
Administrator

DATA VALIDATION AND VERIFICATION

Managing for results and producing an Annual Performance Plan and Performance and Accountability Report require valid, reliable and high-quality performance measures and data. A critical achievement during FY 2003, was the drafting of an ambitious FY 2003 – FY 2008 Strategic Plan with a finite number of Strategic Goals and Long-Term Objectives, cascading into specific and measurable Outcomes that define success. In accordance with the plan, SBA's programs and services are being managed to meet performance goals that support the achievement of the Agency strategic goals

SBA faces many challenges in acquiring high-quality data on both outputs and outcomes. In addition to using output data internally from its own systems, SBA relies on data from resource partners (such as SBDCs, SCORE, WBCs) and other Federal and local Governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, and the reporting capacity of quality data remain major issues for the Agency. Improving data quality continues to be a high priority for SBA, as demonstrated by the creation of the Office of Analysis, Planning and Accountability within the OCFO.

SBA vigorously pursues the following strategies to address the shortcomings of its data quality:

- **Ensuring the validity of performance measures and data.** SBA does this through assessing the relevancy of performance measures and data.
- **Fostering organizational commitment and capacity for data quality.** Achieving data quality through (1) training its managers to make sure they understand the need for quality data, how to develop valid performance measures and how to ensure data quality; and (2) managers attesting to the quality of the data under their management.
- **Assessing the quality of existing data.** Audits and reviews ensure the quality of its financial data systems. However, SBA must assess the quality of loan and program data provided by its resource partners and will include data verification in its lender and resource partner oversight. The OIG has carried out performance measure reviews on the following programs a 7(a), SBIC, Surety Bond Guarantee, 8(a) and the disaster program. As an example, an OIG report documented that SBDCs do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done.
- **Responding to data limitations.** It is not enough to identify data quality problems. Where there are data limitations, SBA must improve quality. During FY 2003, SBA performed internal PART evaluations on all programs as a key element in the planning and budget process. As a result, we have determined that thorough, independent, objective evaluations of all of our programs are required to provide the information necessary to have effective management based on program performance. Managers have been asked to allocate resources to reduce these limitations.
- **Building quality into the development of performance data.** The design process for new IT systems will include the requirements for developing and maintaining performance data. The new systems and upgrades will make sure that only correct data is entered into the systems and that data is stored with stringent verification and change rules. This is exemplified by the Loan Monitoring System project.

Appendix 8 provides for each performance indicator, a definition, source, validity statement and discussion of limitations.

SUMMARY OF OIG REVIEWS

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are very beneficial to SBA's management. The Agency has the option to agree or disagree with OIG recommendations. Once management agrees with a recommendation, it becomes a "management decision." The manager also provides a specific action plan accompanied by a target date for completion. This plan of corrective action is referred to as "final action."

The OCFO is responsible for monitoring the final actions and reporting on their status of implementation. To track and report these to management, the OCFO established a database and developed a status report available on the SBA Intranet page. This is updated as corrective actions are completed. Program offices also provide monthly updates on final action status that are used to update the database.

The OCFO continues to take aggressive steps to improve management's attention to these issues resulting in 126 final actions during FY 2003.

The following two charts depict the SBA's monetary final action activity (audit recommendations with disallowed or questioned costs, and with funds put to better use). The status of all audit recommendations is reconciled with the OIG often to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates.

Table I**Final Action On Audit Recommendations With Disallowed / Questioned Costs****October 1, 2002 – September 30, 2003**

	Number of Recommendations	Disallowed Costs (\$000)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	4	\$135
B. Recommendations on which management decisions were made during the period.	5	\$910
C. Total recommendations pending final action during period.	9	\$1,044
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	3	\$613
(b) Property	0	\$0
(c) Other	0	\$0
2. Write-Offs	0	\$0
3. Total	3	\$613
E. Recommendations needing final action at the end of the period.	6	\$431

Table II**Final Action On Audit Recommendations With Funds Put To Better Use****October 1, 2002 – September 30, 2003**

	Number of Recommendations	Funds to be Put to Better Use (\$000)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	0	\$0
B. Recommendations on which management decisions were made during the period.	3	\$1,145
C. Total recommendations pending final action during period.	3	\$1,145
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	3	\$1,145
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	\$0
3. Total	3	\$1,145
E. Recommendations needing final action at the end of the period.	0	\$0